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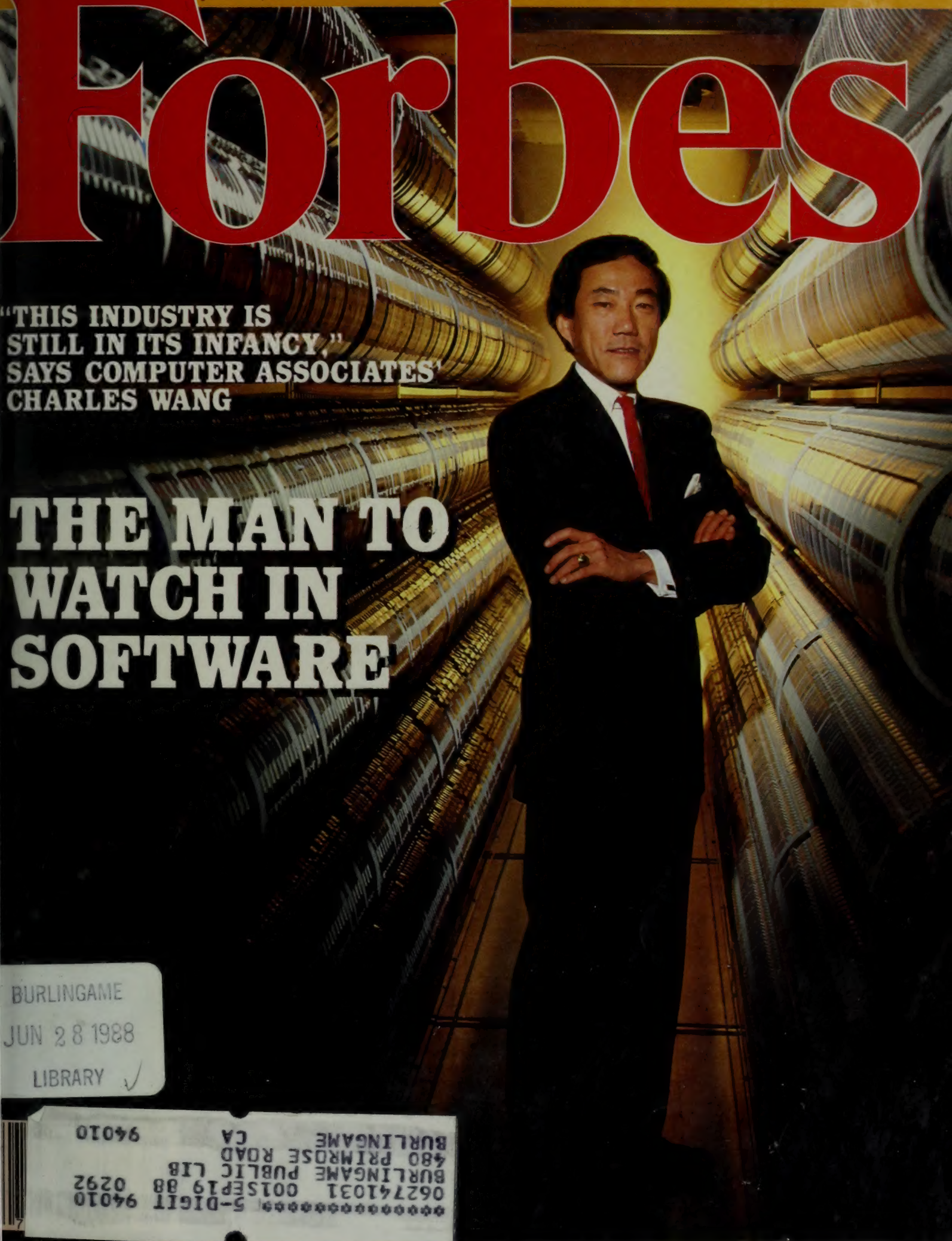

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Cover Photograph by Claudio Edinger/Gamma-Liaison

48 *The disgrace of taxi service in American cities*

JULY 11, 1988
VOLUME 142
NUMBER 1

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 156 AND 157.

COVER STORY

118 Charles Wang And His Thundering Nerds
By Gary Slutsker
Except for IBM, Charles Wang's Computer Associates sells more packaged computer software than any other company. Here's why.

COMPANIES

36 Twistee Treat Corp.
By Richard Behar
An ice cream yarn develops into a tale of international intrigue.

37 IC Industries, Inc.
By Charles Siler
Its new boss, Karl Bays, is dishing up surprises at this conglomerate.

42 Dahlberg Inc.
By Rick Reiff
This Minneapolis hearing aid firm is making more noise than profits.

62 Carl Karcher Enterprises, Inc.
By Ellen Paris
This hamburger tycoon loves his family too well, says the SEC.

64 Brown Brothers Harriman & Co.
By Edwin A. Finn Jr. and Jack Willoughby
It's laurel-resting time for the partners at this once-powerful firm.

84 The Up & Comers: Audiovox Corp.
By Fleming Meeks
What happens when a growing distributor loses control of inventories.

85 The Up & Comers: Johnson Electric Industrial Manufactory Ltd.
By Andrew Tanzer
The Wangs of Hong Kong are giving the Japanese plenty to worry about.

88 Wyman-Gordon Co.
By Laura Jereski
This old-time metal bender should recover, if only metal prices stabilize.

114 Unisys Corp.
By Robert T. Grieves
There's a tough road ahead, but the computer giant has set out smartly.

116 International Minerals & Chemical Corp.
By Charles Siler
It cut back its core business and diversified. Result? Don't ask.

INDUSTRIES

41 Please Take Our Money
By Ralph King Jr.
Banking's déjà vu scramble into rust belt lending.

48 Regulation At Its Worst
By Janet Novack
Taxi service in most U.S. cities is a disgrace. An opportunity?

74 Is Anybody Really Fooled?
By Howard Rudnitsky, Allan Sloan and John R. Hayes
Washington's quick fix for troubled thrifts: Have the dying save the dead.

INTERNATIONAL

34 Mike Milken's Foreign Policy
By Matthew Schifrin
With its economy troubled, Israel looks to Beverly Hills for help.

38 A Yen For Fun
By Ellen Paris
To develop a leisure industry, the Japanese are tapping U.S. expertise.

39 Germany—The Last High-Tax Domino?
By Peter Brimelow
Intellectual inertia has Germany's economic thinking stuck in a rut.

ON THE DOCKET

77 Pity The Copyright Holder
By Deirdre Fanning
Which is more important, individual liberties or the rights of states?

TAXING MATTERS

78 How To Raise The Trade Deficit
By Laura Saunders
A punishing new IRS tax formula for exporters.

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New products, old strategy

Charles Wang is a high-tech entrepreneur, who in a few years built his Computer Associates into the nation's largest independent software company. Wang's basic strategy is simple and classic: Grow through acquisition and product development, keep a tight rein on costs, exploit competitors' weaknesses. "Charles Wang and his thundering nerds" by Gary Slutsker starts on page 118.

A musty corner of Wall Street

There's as much, maybe more, to be learned from failure as from success. In "Living in the past" Ed Finn and Jack Willoughby write of the slow decay that afflicts the venerable Wall Street house of Brown Brothers Harriman. The firm was built on aggressiveness and courage that enabled it to grow even while the Great Depression was ravaging America. But Brown Brothers' present leaders are as timid as their predecessors were bold, and the world is passing them by. Starts on page 64.

Tim Farrow

Inside Brown Brothers

Manning the ramparts

Movies can be instructive, too. In "Is anybody really fooled?" FORBES likens the FHLBB's Danny Wall to a character played by Brian Donlevy in the 1939 movie *Beau Geste*. To deceive his besiegers, Donlevy, a sergeant in the French Foreign Legion, propped up the corpses of his fallen soldiers; in today's savings and loan crisis, Danny Wall is propping up dead S&Ls, hoping to convince folks that they are still alive. The ruse didn't work in the movie. It won't work today. Howard Rudnitsky, Allan Sloan and John Hayes wrote the story that starts on page 74.

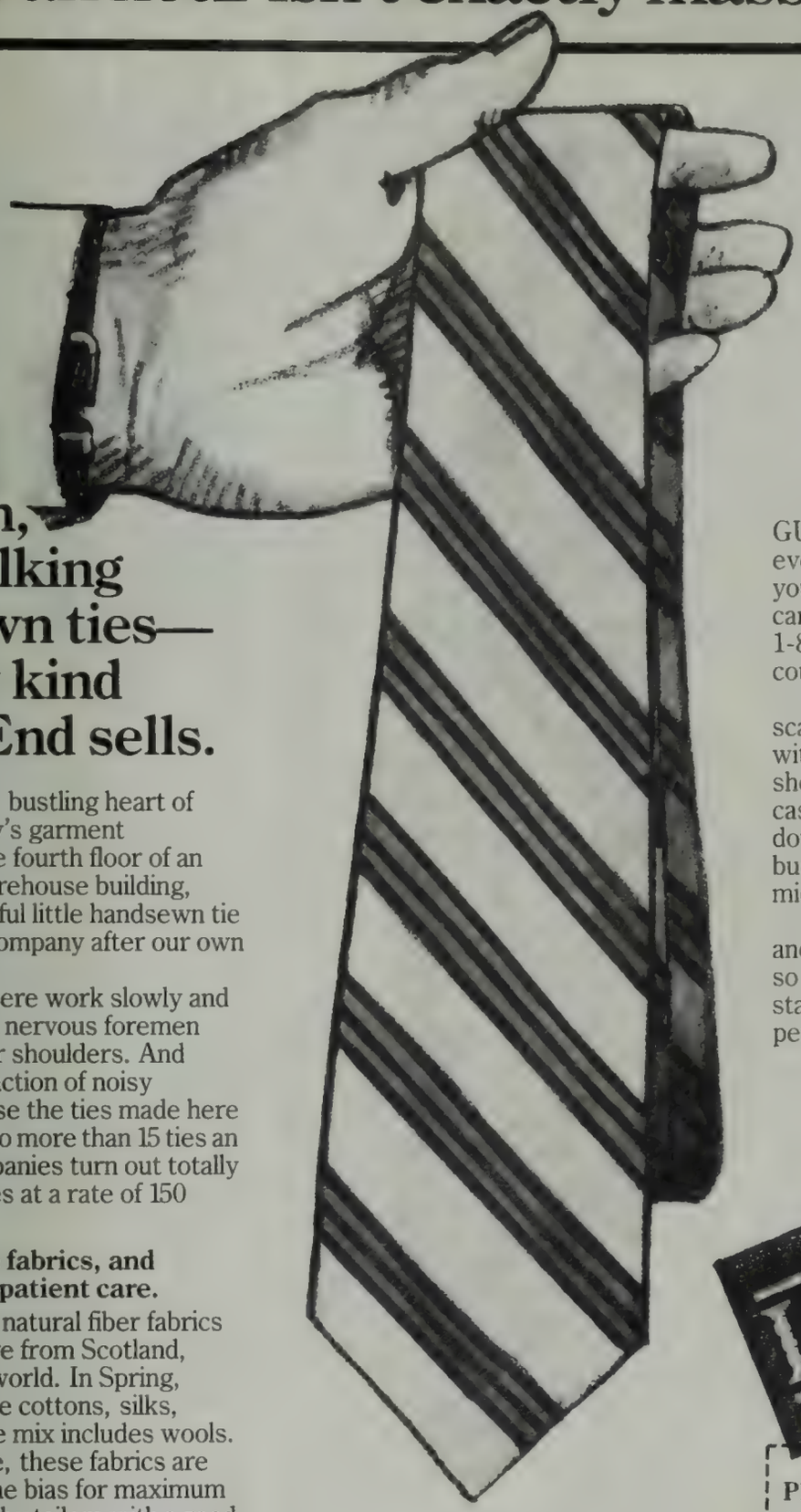
Embarrassing questions

In mid-June Richard Behar journeyed to Nassau in the Bahamas to check on a small U.S. company that talks of building a casino complex on the islands. Some local pols apparently weren't pleased with the questions Behar was asking, for two days after his arrival, he and his hotel room were searched by Bahamian police who said they were looking for drugs and firearms. Finding nothing, they left, but the police behavior led to an article in the (Nassau) *Tribune* entitled: "CID 'shakes down' U.S. journalist." The embarrassed police commissioner of the Bahamas, Bernard K. Bonamy, then called a press conference to respond. I won't bore you with his rambling statement, but the burden was that Behar and FORBES were out to discredit the Bahamas. Our response is brief: Not FORBES but the action of its politicians discredits the government. Behar's story "Soft ice cream, anyone?" begins on page 36.

James W. Michaels

Editor

15 ties an hour isn't exactly mass production...



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Russ Kennedy

Graham & Dodd at bat

Apr. 4, 1988

As the baseball season opened, FORBES praised the Pittsburgh Pirates as the most "efficient" team in the major leagues this year. On our analysis, the Pirates were the low-cost producer, with more runs and victories per dollar of active players' salaries than anyone else.

So how are they doing? Better than most other baseball pundits predicted. After a torrid start in the National League East—in first place for four weeks—the Pirates were recently in second place, just 6½ games behind the New York Mets, whose payroll is four times as large as Pittsburgh's. For bettors averse to picking heavy favorites like the Mets, the Pirates still look to us to be "the closest thing to a pure Graham & Dodd" asset play in baseball. If they can maintain their present pace, the Pirates will be more than twice as efficient, in terms of player payroll per victory, as any other team in baseball.—**Allan Dodds Frank**

Ken Kerbs

Coated cover-up?

Mar. 9, 1987

When FORBES looked at Michael Weinstein's Coated Sales, Inc. of Laurence Harbor, N.J. last year, the maker of high-performance fabric for parachutes and other survival gear had the seeming glow of success. Return on equity had averaged 44% since 1984 and profits promised to stay robust.

Unfortunately, Coated Sales' success was illusory. Though the company reported healthy earnings of $10.9 million on sales of $126 million for the year ended in February, its auditors, Peat Marwick Main, resigned, having unearthed false money transfers and accounting irregularities.

A special committee appointed by the board to investigate soon found a $6 million overstatement of assets on the latest financial statement. By last month it was clear that overstatements far exceeded $6 million, and investors were warned not to rely on Coated's financial statements.

What of the once gregarious Weinstein? Evidently, he knew of Coated's troubles long before they were announced. Published reports indicate that he dumped 472,000 shares—2.6% of the stock—from October to March, for $4.6 million. Other Coated officers and inside investors were also bailing out. Now, with the stock trading at about 75 cents per share, Weinstein has resigned from the board—"ill health"—and no one at the company is talking. Meanwhile, the company has filed for protection from its creditors under Chapter 11 of the bankruptcy code. Some success story.—**Alyssa A. Lappen**

Losing ground

Mar. 25, 1985

The major networks were under attack three years ago. With their prime-time audience shares eroding, they were losing revenue to cable and independent stations. Yet the nets still had an efficiency story, offering the biggest bang for the advertising buck, and FORBES figured they would bounce back.

Oh? Since then, cable and independent networks have continued to nibble away at the major networks' audience. The nets' share of prime-time viewers has fallen another 6 points, to little more than two-thirds of the viewing audience between 8 and 11 p.m. Worse, in February's sweeps, when broadcasters pulled out all the stops with stunt programming, the networks' share of the total audience dropped to just 63%, down 4 points from 1985. Cable's audience share, meanwhile, rose 3 points in the same period, to 11%, and independent stations' share of the total audience inched up 1 point, to 23%.

Network ad dollars this year show a mixed pattern. Advance sales for the fall season are weak, but they will get a lift from the summer Olympics and the presidential election. Robert Coen, a forecasting expert at ad agency McCann-Erikson, expects that network ad revenues for all of 1988 will rise 11%. But he figures cable ad sales will grow 16%.

"Clearly, there are other ways to buy national television time," says Allen Banks, an executive vice president at Saatchi & Saatchi, Compton. "Cable has become a darling, and syndication is viable."—**Edward Giltenan**

Kim Newton/Woodfin Camp

Free enterprise, Navajo style

Nov. 9, 1981
May 18, 1987

Navajo tribal chairman Peter MacDonald made a name for himself at the turn of the decade by encouraging corporations to help native Americans develop their natural resources. In 1982 MacDonald lost his post in a tribal election, but he was returned to power in 1986, and FORBES predicted he would once again begin hammering away at barriers to industrial development on reservations.

We were right. Not only has MacDonald set up a $30 million industrial development fund for Navajos, but in June he struck a 15-year deal with General Dynamics to make electronic missile assemblies on the reservation. Development authorities in Florida, Mississippi and Texas made pitches to General Dynamics, but the Navajos won by agreeing to build a $5.8 million plant and lease it back to the company.

The tribe is also building its own businesses. One new joint venture, Golden Shiitakes Inc., is already raising shiitake mushrooms, delicacies that retail at about $12 a pound and could ultimately generate 600 jobs. Another, Cambridge Financial Group, plans to use lumber on the reservation to sell homes both on and off the reservation. A $2-million-plus tribal technology center is writing software for General Electric and making computer workstations for defense contractors. MacDonald has even signed industrial development compacts with New Mexico and the town of Gallup. MacDonald hopes to build hotels and tourist information centers to lure tourists to spend more on the reservation.—**A.A.L.**

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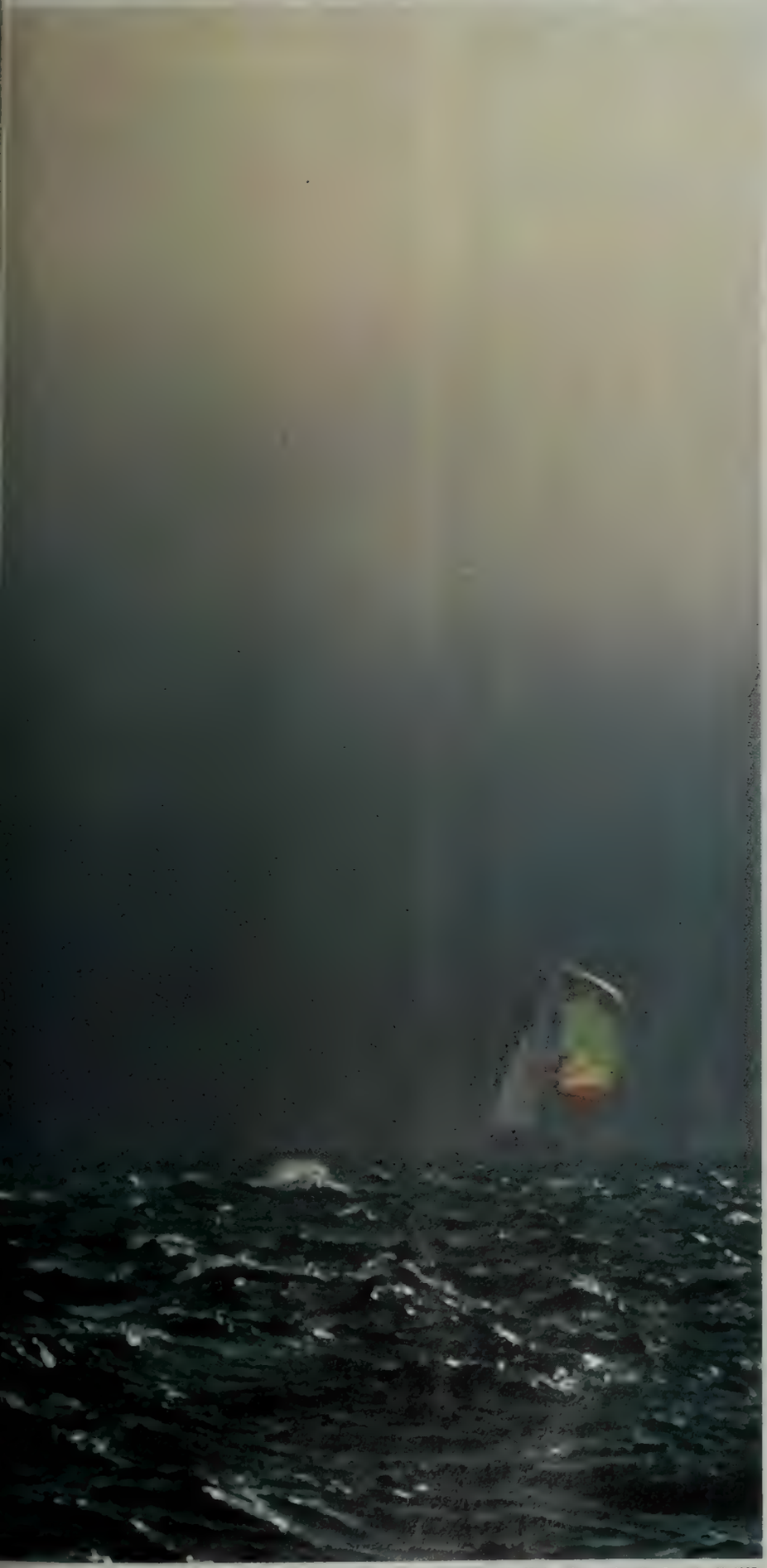

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Forbes Informer

Edited by Gretchen Morgenson

Regan roils Merrill

Don Regan sure knows how to make friends and influence people. First he alienated the White House with his vengeful book, *For the Record.* Now he's angered former colleagues at Merrill Lynch with his comments in a business mag that the firm has been badly run since he stopped running it. Merrill, to hear Regan tell it, has not acted in the best interests of all its shareholders.

Miffed, Merrill Chairman William Schreyer sprang into action. Regan had been scheduled to speak at a luncheon June 13 sponsored by Merrill at the Edison Electric Institute's conference in Washington. But at the last minute Schreyer bounced Regan from the agenda; in his stead went Senator Alan Cranston. Still, Don Regan may have had the last laugh; he got to keep his $25,000 honorarium, paid for by Merrill.—**Jason Zweig**

Blinder's new tack

How do brokers at sleazy Blinder, Robinson cope with the firm's much-publicized run-ins with the SEC? In a recent telephone pitch, one Blinder salesman deflected concern over the firm's bad rep this way: "Trouble? All of Wall Street's in a little trouble with the law these days. You know, Drexel, Hutton and the rest." Not to exonerate Drexel et al., but that's a bit like a rapist pleading that he did nothing worse than the respectable citizen who got a ticket for speeding.

Dean's down one

Has Dean Singleton peaked at the ripe old age of 36? When the vice chairman of MediaNews Group swaggered into Dallas two years ago and bought the *Times Herald,* he said that he would run the paper long enough to install his infant son as publisher when he was grown-up.

Zigy Kaluzny Gamma Liaison

Dean Singleton of MediaNews Group
A media empire on the wane?

But this bit of nepotism was not to be. In June Singleton and partner Richard Scudder sold the Dallas paper. Reports of the sale to Singleton's longtime associate and pal John Buzzetta had Dean profiting "handsomely" and maintaining a 20% stake in the paper. But it seems that his exit from Dallas was neither as profitable nor as voluntary as it was initially made out to be.

Sources say Dean was eased out of the paper, at a modest profit, for around $100 million—substantially less than the reported $140 million price. One possible explanation: He may have been in technical default on his bank debt. Singleton emphatically denies it. Interestingly, his remaining stake is nonvoting; he'll have no say in the management of the paper.

Over in Houston, Singleton has troubles as well. Finances at his *Houston Post* are so precarious that, according to an internal memo circulated in April, the newspaper has not been making enough money to service its bank debt.

Changing his tune

It's a good thing turnabout's fair play. Just ask Samuel Heyman, the real estate operator turned raider turned corporate chieftain. In the five years since he won GAF Corp. in a vicious proxy fight, Heyman's come full circle on WNCN, the New York classical radio station and GAF subsidiary.

Back in 1983, when he was battling GAF, Heyman pontificated: "We do not believe ownership of a classical music radio station is an appropriate holding for a company whose principal businesses are specialty chemicals and building materials. This is . . . an unwarranted diversion of corporate resources, financial and otherwise, from GAF's two main businesses."

Now in the midst of taking GAF private, Heyman is battling to hold on to WNCN. In fact, GAF is going to court this fall to defend its rights to own and operate the station.

Why fight for an "inappropriate" asset? Because WNCN, though small, is solidly profitable, and Heyman will need all the cash flow he can lay his hands on to swing his LBO. No wonder Heyman is WNCN's newest and biggest fan.—**Eric Schmuckler**

An election prediction

Trying to get a fix on how the presidential election will play this fall? Consult the one election indicator that's proved almost 100% accurate.

What indicator? Ladbroke's, the British bookmaker. Don't laugh. Odds made by Ladbroke on U.S. presidential elections have an enviable forecasting record and are closely watched by Boston economic consultants H.C. Wainwright & Co. In 1980, although public opinion polls in America considered the Carter-Reagan race a close one, the bookmakers predicted a Reagan landslide, giving him a 77% probability of success. The bookies were dead-on again in 1984.

Now the oddsmakers are giving the Republicans a 44% probability versus the Democrats' 56%. Of course, Bush could turn things around. But if he doesn't, Wainwright warns drily, "Expectations about the investment climate over the next four years may need to be reassessed."

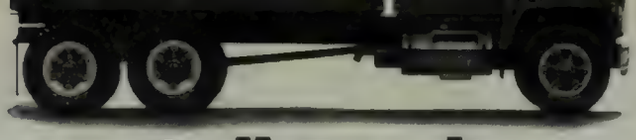
Comrades in capitalism

Why were the chairman and general secretary of the Communist Party of Finland ousted in a shakeup at Politburo headquarters just weeks ago? Seems the Finland Reds were forced to resign over losses of some $10 million of party funds. The Reds took a bath in such heinously capitalistic investments as a team of harness race horses called the Hot Trotters, a Helsinki clothing store and other small businesses. The communists' investment losses were especially ironic given that the party had previously lambasted Finland for its capitalistic "casino economy." Now it's the Reds who are red-faced.

Herb goes Hollywood

Sometime after Mobil Oil announced it was moving its headquarters from New York City to Fairfax, Va., Herb Schmertz, former Mobil superflack, decided it was time to set out on his own. Now Schmertz has reportedly surfaced in London to try to raise $4 million for a foray into the movie business. Like countless other Hollywood neophytes, he longs to make "low-budget, high-quality" films.

Schmertz certainly has the ego that Hollywood requires, but does he have the style? Perhaps. Remember last fall when he began sporting an earring at high-powered board meetings? Mobil Chairman Allen Murray didn't like it, but in Tinseltown anything goes.—**Lisa Gubernick**



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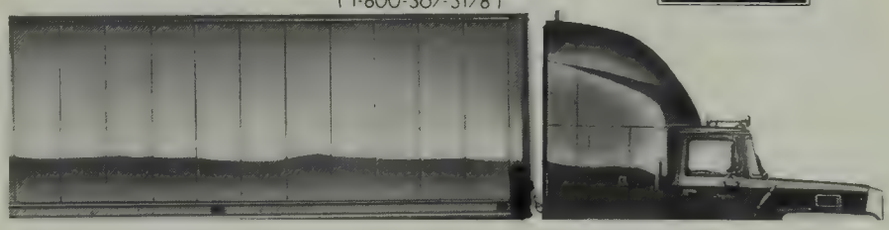

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Readers Say

Sahi Baat (the truth)

SIR: Re "Rajiv's mounting woes" *(Apr. 4)* I enclose a table which lists the 17 highly indebted countries. India does not figure in the list. The Indian track record of having never defaulted in repayment of loans has been commended by all the international agencies. In per capita terms India's debt burden is $44, one of the lowest in the developing world. In fact some eminent economists would like to recommend a stronger dose of external debt for boosting growth. India's development program has been mostly financed by its domestic savings, which is about 24% of GNP.

India's rate of inflation is in single digits and has remained within the prudent limits during 1987, in spite of the worst drought in four decades.

The interest of foreign companies in doing business with India remains strong. From the U.S. alone, 186 companies signed collaboration agreements during 1987.

—N. Misra
Minister (Economics),
Embassy of India
Washington, D.C

If I ruled the world

SIR: You quote Tom Flatley as saying, "If it were my intention to rule the world, to be a Trammell Crow or a Donald Trump, then I would get very heavily into partnerships and I would be that much bigger in business" ("A developer who hates leverage," *May 30*). For the record, Donald Trump is in very few partnerships—and that's the way he intends to keep it.

—Donald J. Trump
New York, N.Y.

Grand cru

SIR: Two factors support the lofty P/E ratio and price of Chalone Inc. ("Wine—$6.50 a glass," *June 13*). Shareholders may purchase private selections of the firm's ultra-premiums, which are not available to the public. They may also attend the annual meeting at one of the wineries, where this year 900 wine aficionados gathered to sup and dine at an event funded by the sale of "library" wines. With attendance exceeding the combined total of the GM and IBM meetings and financed by selling excess inventory, perhaps this little company is doing something right.

—James Summerford
Playa del Rey, Calif.

Pumped up

SIR: Your article "Medicine's $10 billion bonanza" *(June 13)* leaves the reader with the idea that sports medicine is a racket for profiteers. Our profession is striving for excellence.

—Andrew N. Massey
Head Athletic Trainer
Wofford College Athletic Department
Spartanburg, S.C.

SIR: Your article mistakenly treats physical training and exercise programs as if they were one. This is absolutely not the case.

—Alan J. Patricof
New York, N.Y.

SIR: Unfortunately, there are opportunists in sports medicine and rehabilitation, as in any field. The point should not simply be that they exist, but to educate the public as to how to distinguish the "quacks" from the concerned and ethical experts.

—Abby Corsun Sims
Chief Operating Officer,
Sports Training Institute
New York, N.Y.

Trashy thoughts

SIR: Now we have designer trash bags that separate us from the common folk *(Fact and Comment, June 13)*. What will they think of next? Hopefully, a way to reduce our dangerous levels of refuse instead of just making it look pretty. The only purpose served by designer trash bags is to help us hide from the ugly artifacts of our throwaway society.

—Renee Johannensen
Upper Montclair, N.J.

Quick-buck artist

SIR: Your article on Donald P. Kelly did not tell the whole story ("Chicago's unabashed centimillionaire," *May 30*). I was a franchised dealer of one of the companies owned by Beatrice and acquired by Kelly and his financial partners. I saw the emphasis placed on cash flow to service the

heavy debt, and on short-term profits to increase the spinoff price. Consequently, research and development was virtually stopped, engineering and field support curtailed, advertising budgets cut and inventory levels reduced. All of these probably accomplished their purposes for Kelly, but the company's market share was lowered and it lost its position as a leader in its field.

Quick-buck artists like Kelly do nothing to improve the economy or increase productivity of companies they control. They sap their strength, which has taken years to build, and reduce their ability to compete.
—Robert L. Dean Jr.
Denver, Colo.

Screwed up

SIR: Re your article "The high cost of cheap bolts" *(June 13)*. The frightening questions raised about the thousands of vehicles, buildings and bridges affected by these fraudulent fasteners simply raise another issue: Why do we allow ourselves to get "screwed"?
—Samuel N. Boldrick III
San Antonio, Tex.

SIR: The fact that the Department of Defense will continue buying bolts from a company guilty of selling counterfeit bolts is unconscionable and shows a total lack of concern for our military personnel.
—James J. Wert
Nashville, Tenn.

The right stuff

SIR: Your article "Futile gesture" *(May 16)* concerning the congressionally mandated sanctions against South Africa misses the point. Individuals and businesses often pass up easy dollars because of their commitment to moral and ethical standards. Others, blinded only by the dollar, choose to rationalize or simply ignore these considerations. So too with countries. If West Germany and Japan step in to fill the commercial vacuum, let them have the business. Sooner or later their populations will realize the roles they are playing in sustaining South Africa's policies. Instead of ridiculing the U.S. Congress, FORBES should congratulate it for reflecting the overwhelming opinion of the American population.
—Jay E. Myers
Fountain Valley, Calif.

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

"IF THE ECONOMY IS GOOD, THE REPUBLICANS WILL WIN"

For as long as pundits have been prophesying about this year's presidential election, can you recall a one who didn't conclude that good times would almost assure a White House victory for the GOP?

Well, the times are good, and they're going to be as good or better on Election Day. But the polls show George Bush alarmingly behind, weaker by the week.

It would seem that the healthier our economy becomes, the more more people are concerned about other things than the basic one of earning a living. Panama. Nicaragua. Iranscam residue. Drugs. And—"Is George too nice a guy?"

In every sense but GOPolitical, it's wonderful that America's economic weal is—for the nonce—not a prime election issue.

Until something or someone starts rocking the boat.

Before the election.

Or soon after.

WHERE ARE MOST OF THE MILLIONS OF NEW JOBS?

An overwhelming percentage has been, and is being, created in companies with fewer than 100 employees, which is spectacular confirmation that the American entrepreneurial spirit—the real guts of our economic vitality—is in dynamic good health.

WHY DO PAYERS OF HUGE SUMS TO ACQUIRE PRIZE NAMES

so often right off the bat knock out the very things that made the prize name a prize?

Look what Canada's "victorious" Campeau Corp. plans to do to Bloomingdale's. To cover the debt and interest for the crazy premium paid to get Federated, Mr. Campeau has mandated tens of $millions to be cut out of such costs as showroom displays and the other chic merchandising that has made Bloomies the department-store pacesetter.

And look how the acquirers of "21" mortally maimed their prize. First they shut down the whole place for four months to do a top-to-bottom fix-up on the five-story brownstone. Then they "upgraded" the old menu beyond recognition. And let it be known that a younger, smart crowd was "in," the Old out.

Now "21" is.

What's the cents of it?

WE USED TO NEEDLE RUSSIA FOR NOT PAYING ITS U.N. BILLS

Remember all those years when we used to bawl out loud the U.S.S.R. for not anteing up its share of the United Nations' budget? The Soviets withheld hunks because it didn't want to support some U.N. actions with which it disagreed.

Now Russia is currently paid up and has even paid off all its arrears.

But guess who hasn't yet paid up its full share for last year. The United States.

As a result, by the end of 1987 the U.N. was almost busted.

Once again, in 1988, we are behind hundreds of $millions in back dues to the U.N. Which may please some of its American critics, but such U.S. reneging certainly doesn't represent the wishes of the vast majority of Americans.

It's quite an irony that capitalist U.S. has replaced communist U.S.S.R. as the United Nations' number one budget malingerer.

IT TAKES A REALLY SICK MIND

[illegible] it's funny or "clever" to plant bugs in computers [illegible] erase, scramble and otherwise destroy all the stored programs and data.

Such vicious and costly vandalism should carry a heavy penalty, in both money and jail time.

Ways of introducing these programs into other computers have become very sophisticated. They wipe out countless hours of work and often invaluable and not always duplicatable data.

If someone robs you, the thief usually goes to jail. Such criminal activity would largely cease after a few computer vandals were put behind bars.

ONE'S MOUTHWATERING, BUT WHO CAN BEAR THE OTHER?

The picture of Betty Crocker's blueberry muffin is almost scrumptious enough to make you want to eat it right off the page.

But have you ever seen a more unappetizing pizza message than this takeoff on the golden bear that adorns California's flag? While this woefully treated bear won't be tempted to bite on that meagerly sprinkled slice, he ought to take a chunk out of his depictor's hide.

Californians deserve at least a better slice if they have to grin and bear this message.

IS THIS GOOD?

I wonder. . . . A recent study shows that there are eight chess players for every bridge player.

LIFE BY THE POUND

We're used to buying quantities of many things by the pound. More and more we're being convincingly told that we can also each buy an additional quantity of our own lives by the pound.

As all we a-bit-overweighters know from having had it pounded into us, taking off pounds is a sure way to add to the time we're on earth instead of in it.

But a great and increasing number of Americans have the opposite problem these days. They weigh too little, and that's dangerous to health, too.

As *The Health Letter* (P.O. Box 19622, Irvine, Calif. 92713) explains: "What a person should weigh really needs to be individualized. If high body weight is because of well-developed muscles and bones, it is not likely to be a health problem. Excess body fat is the problem. That is particularly true if it involves fat in the abdominal area or upper body. Fat accumulation in the hips and thighs may not be attractive, but it is not thought to have the same health implications as fat deposits in some other areas.

"What are the risks of being too thin? There are many people obsessed with thinness to the point that they are undernourished. An example of the extreme situation is the person who suffers from anorexia nervosa. These people can literally starve themselves to death. To a lesser degree, undernutrition results in loss of energy. Energy comes from the calories in our food, and those who do not consume enough are likely to experience fatigue.

"In young women, in particular, undernutrition can prevent the proper development of a good, strong skeleton and predispose to osteoporosis later in life. It can also cause changes in the brain and hormone mechanisms that affect reproductive function. This can lead to infertility. These conditions can occur from a calorie deficiency, even when an individual is taking vitamin and mineral supplements. Calories are essential if the body is to have the energy to function properly."

HEIGHT/WEIGHT TABLES: MEN

Height	Metropolitan* 1959	Metropolitan* 1983	U.S.** Average
[illegible]	[illegible] lbs	126-136 lbs	135 lbs
[illegible]	[illegible]	128-138	139
[illegible]	[illegible]	130-140	144
[illegible]	[illegible]	132-143	149
[illegible]	[illegible]	134-146	153
[illegible]	[illegible]	137-149	158
[illegible]	[illegible]	140-152	162
[illegible]	[illegible]	143-155	167
[illegible]	[illegible]	146-158	171
[illegible]	[illegible]	149-161	176
[illegible]	[illegible]	153-165	181
[illegible]	[illegible]	[illegible]-169	187
[illegible]	[illegible]	[illegible]-173	192
[illegible]	[illegible]	[illegible]-177	198
[illegible]	[illegible]	[illegible]-182	203

[illegible]

HEIGHT/WEIGHT TABLES: WOMEN

Height	Metropolitan* 1959	Metropolitan* 1983	U.S.** Average
[illegible]	94-106 lbs	106-118 lbs	115 lbs
58	[illegible]-109	106-120	118
59	103-112	110-123	120
60	103-115	112-126	124
61	106-118	115-129	126
62	109-122	118-132	130
63	112-126	121-135	133
64	116-131	124-138	136
65	120-135	127-141	140
66	124-139	130-144	144
67	128-143	133-147	147
68	132-147	136-150	152
69	136-151	139-153	155
70	140-155	142-156	159

*Desirable weight without shoes or clothes, medium frame, ages 25 to 59
**[illegible] without shoes or clothes, ages [illegible]-19

VIETNAM WAR MEMORIALS

are now being considered by more and more communities.

High time—past time—as Americans were reminded anew at Memorial Day wreath-layings for our honored dead of other wars.

What form these Vietnam memorials should take is being discussed in many states, cities

and towns, big and small.

I can't think of anything more fitting, more searingly memorable than the extraordinarily moving Vietnam Monument in Washington, D.C.

Why not small replicas of that, with the names of the communities' own on the black marble?

BEING IN "THE FORBES FOUR HUNDRED" DOES INFLATE ONE'S MAIL

To those who complain about the drawbacks of being on the list of The Forbes Four Hundred richest people in the country, we explain it's not hard to get off—just drop below the minimum ($225 million last year) by giving the stuff away, blowing enough away, going broke or kicking the bucket.

We've not had any that we know of voluntarily getting off in any of those ways.

One of the complaints, though, is for sure most valid.

When you're on The Forbes Four Hundred list you get on a whopping number of other lists—mailing lists. Congressmen's lists. The other day we received a letter addressed to Mr. Malcolm Stevenson Forbes, that began thus:

"As you undoubtedly know, your name recently appeared on the FORBES magazine list of The Four Hundred richest Americans. Although I realize that the FORBES survey is sometimes based on estimates and may contain inaccuracies, it at least provides an indication that you are among this nation's economic leaders.

"Based on that position of leadership, I am writing to solicit. . . ."

FASHION WILL ALWAYS BE

determined by those to whom it's unimportant.

TUXEDO

is a Park. "Black tie" is a dinner jacket.

BOOKS

● **America's Secret Aristocracy**—by Stephen Birmingham (Little, Brown & Co., $18.95). This is a fascinating chronicle of our nation's earlier rich, colorfully studded with financial, social and other foibles. Mr. Birmingham is the most perceptively lucid historian of those foremost garnerers whose families have managed to hang on a while to some money and eminence. Nouveau is not for him.

Excerpts: *Brevity, simplicity, and the avoidance of euphemism are the chief hallmarks of the upper-class American vocabulary. . . . The first American Livingston, Robert [who arrived in 1674] was, essentially, an adventurer. In today's parlance, Robert would probably be called a hustler, a high roller, a social and entrepreneurial Alpinist, a 17th-century Donald Trump. . . . Robert Robert Livingston married the richest girl in America, Margaret Beekman, the eighteen-year-old daughter of Colonel Henry Beekman and the sole heiress to the immense Beekman patent, a quarter-million-acre tract comprising most of what is now New York's Dutchess County. Margaret Beekman was already a Livingston in a complicated sort of way. Her father was her new husband's uncle Gilbert Livingston's brother-in-law. Also, her mother was a Livingston and an heiress as well, the daughter of one of the original Robert Livingston's nephews, another Robert, who had followed his successful uncle from Scotland. Thus the newlyweds were second cousins once removed, the bride's mother was the bridegroom's aunt, and a total of three great fortunes—two from Livingstons and one from the Beekmans—joined hands in holy matrimony in 1744. . . . [John Jacob Astor] made powerful enemies in high places, and none other than a former secretary of the treasury, Albert Gallatin, had declared that he would never handle John Jacob Astor's accounts. "He dined here last night," Gallatin wrote sneeringly, "and ate his ice cream and peas with a knife."*

● **1988 Eurail Guide**—by Kathryn Saltzman Turpin and Marvin L. Saltzman (Eurail Guide Annual, 27540 Pacific Coast Highway, Malibu, Calif. 90265, $12.95). The only book to describe every train ride in the world a tourist might want to make. Essential for planning and taking rail trips in 117 countries. Writes Mr. Saltzman, "I've been trying for 18 years to get you to review this book, already recommended by every other major magazine and newspaper." Sorry about that. If you're into training, here's the bible, complete with maps, schedules, tour prices and sites to see.

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Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

The Red Threat

Moscow—Driver pulls up in front of the Intourist Hotel near Red Square, double-parks and blocks the entrance. Soviet policeman shouts at him that the car will be towed away. Driver shrugs, walks off.

How, I ask, can this challenge to authority be tolerated? "The threat had no credibility," my interpreter replied. "That cop couldn't get a tow truck here in a week."

—William Safire, *New York Times*

More Fun Than Politics

Europe [in the 1780s] was caught up in something that was far more exciting than politics or what was going on across the ocean in America. Two Frenchmen, Joseph Montgolfier and his brother Etienne, had sent up a balloon filled with hot air into the sky. Next it would be a manned flight. . . . It ascended, then bobbed and tossed over the rooftops of Paris. Sarah Jay wrote excitedly home to her family after witnessing her first balloon flight that "Mr. Jay [negotiator for treaty with Britain] and I might think of taking our passage back home to America next spring on the wings of the wind." More seriously she added that balloons "certainly might be used for carrying mail."

Ballooning captured Europe's imagination far more than the American Revolution. Balloon motifs were suddenly being used to decorate crockery, fabrics, wallpapers. Women's hairdos went up in balloon shapes, and the balloon-shaped dress, with balloon-shaped sleeves, became the fashion.

—by Stephen Birmingham, *America's Secret Aristocracy*

Food & Japan

Professor Sumiko Iwao finds that housewives tend to be as conservative and protectionist as farmers when it comes to opening Japanese markets to agricultural produce. It sounds surprising at first because, as consumers, they would reap great benefits. But they fear foreign supplies could be cut off and tell her, "Then how would I feed my children?"

A senior Foreign Ministery official, hearing of her report, nodded gravely. "Food security is special. Every Japanese over 40 has the personal experience of starving. I do myself." So the farm lobby not only has great political clout, though farmers are substantially less than 10% of the population, it has broad popular sympathy and little consumer resistance.

—Flora Lewis, NYT News Service, *Asahi* [Japan] *Evening News*

Truman Who?

Capote met the Paleys [of CBS] in January 1955, just after the opening of his Broadway musical, *House of Flowers*, when his friends the Selznicks, David and Jennifer, were invited for a long weekend at the Paley house in Jamaica. "Do you mind if we bring Truman along?" David asked Bill Paley. "No, of course not," Paley replied. "It would be an honor."

And so early one cold morning Truman boarded Paley's private plane. Although Bill looked startled when he saw him walk into his airplane, the inevitable scarf trailing behind him, he said nothing until they were airborne. He then turned to David. "You know, when you said Truman, I assumed you meant Harry Truman. *Who* is this?"

—*Capote: A Biography*, by Gerald Clarke

I would leave the country if I were President.

—Sylvester Stallone, *Newsday*

Consolation

In a sense it was Queen Alexandra who spoke Edward VII's epitaph. "Now at least," she told Lord Esher, "I know where he is."

—*Rainbow People*, by Richard Collier

Tech vs. Trees

Bad news for trees. Information technology was supposed to let us taper off paper. But we emphatically have not. The paperless office, the leafless library, the inkless newspaper, the cashless, checkless society—all have gone the way of the Empire State Building's dirigible mooring, the backyard helipad, the vitamin-pill dinner, and the Paperwork Reduction Act of 1980. The Micro Millennium is turning out to be the Cellulose Century.

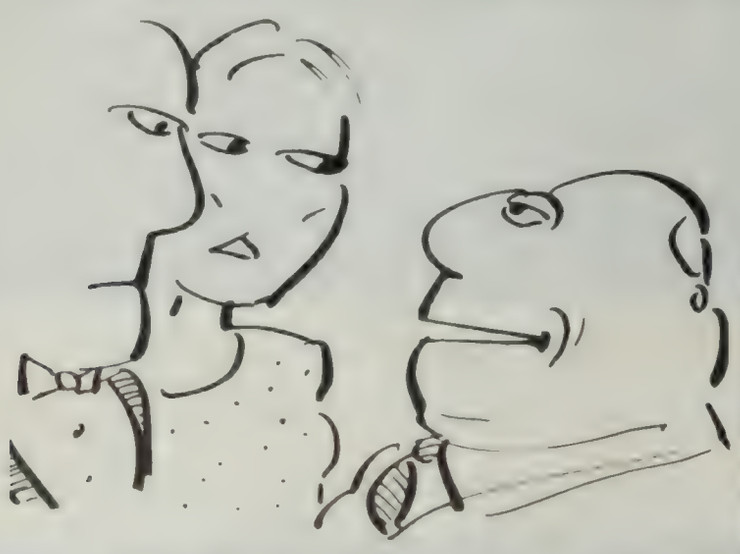
From 1959 to 1986, America's consumption of writing and printing paper increased from 6.83 million to 21.99 million tons or 320%. German ships that bring Mercedes and BMWs, Leitz and Zeiss instruments, and Heidelberg printing presses return laden with waste paper for recycling—at last an export in which America excels.

—Edward Tenner, *Princeton Alumni Weekly*

Caddy Saver

For the golfer who has everything but energy, Gettig Technologies Inc., Spring Mills, Pa., is selling a $2,350 electronic caddy that dutifully follows about four feet behind a golfer, carrying the bag. The three-wheeled, battery-powered cart tracks a radio transmitter slightly larger than a pack of cigarettes that is strapped to the golfer's back.

—*Wall Street Journal*



Cartoon by Anthony Hadden-Guest, courtesy Manhattan, Inc.

I didn't say I wanted the pleasure of your company. I said I want your company."

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Merrill Lynch	7.8%
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Drexel Burnham Lambert	6.9%
Prudential-Bache	6.8%
Kidder Peabody	5.9%
Thomson McKinnon	3.4%

Asset Allocation has been in the news a lot recently. It's the system of allocating an investor's funds into different types of assets to achieve a strategically balanced portfolio. And the news ranks PaineWebber as the leader in the field.

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So, our outstanding ranking in a recent article that appeared in a national business publication confirmed what we and our clients have known all along. The article evaluated the Asset Allocation advice of top brokerage firms for 1987. The figures revealed that a client who followed PaineWebber's advice last year could have realized an overall return of 13.1% —more than three percentage points higher than the next-best firm.

Now, everyone is starting to realize the value of an Asset Allocation discipline. By correctly judging how your assets should be divided among stocks, bonds and cash at any given time, you have a much better chance of outperforming the market. But no firm can do it like PaineWebber. We alone provide the experience, the performance, the resources, the people and the personal attention to help you not only survive today's volatile conditions, but emerge a winner.

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*Calculations by Wilshire Associates, based on company documents. Past performance is no guarantee of future results.

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

BARGAIN

Long-term U.S. Treasury bonds.

Our interest rates are now too high. Jitters about inflation are your opportunity. The drought plaguing agriculture will boost food prices, but this is not to be confused with the classic inflation that comes from debasing the nation's money, which was the kind we experienced in the 1970s. The dollar today is sound.

While you're at it, you might also look at high-grade municipal bonds. After all, if the Democrats win the White House, personal income tax rates are likely to go up.

GORBACHEV—LET'S KEEP OUR HEADS

The U.S. and the Western allies should not get euphoric about the extraordinary thaw in relations between us and the Soviet Union and the daily, eye-popping evidence of more open, intellectual ferment within Soviet society itself. We should not do what we did in the 1970s and shower Moscow with loans, transfers of technology, easy trade credit terms and uneven concessions in arms control negotiations.

The reason is twofold. First, Gorbachev and/or his policies may not be around for very long. Second, and more basic, such concessionary assistance will enable the Soviets to put off hard decisions, such as curtailing their bloated military.

A. Noguez/Sygma

No democrat

Though some Westerners may be tempted to try it, our ability to "help" Gorbachev is severely limited. We have no real knowledge of the internal political dynamics of the Kremlin. Given Gorbachev's international reputation, it is unlikely he'd be ousted from office, but his policies, especially restructuring (perestroika) the moribund Soviet economy, could be effectively paralyzed.

The question to ask is, would we be so amenable to assisting the Soviets if power were effectively controlled by someone of the ilk of a Brezhnev? To base our Soviet policy on one man would be foolish given the dark history of the communist regime. Remember, during the 1920s there was considerable economic freedom in Russia. This was followed after 1929 by the murderous oppression of Joseph Stalin, who, by the early 1930s, had exterminated close to 15 million people.

Gorbachev's policies spring not from democratic yearnings but from a blunt recognition that the Soviet economy today is a shambles and will be unlikely to support in the years ahead the kind of big power status that gives the Bolshevik regime its only legitimacy. The Soviet Union has had no economic growth for years. Outside the military, it is, for all intents and purposes, a Third World economy, one that is getting worse, not better. It has been just about the only country on the globe in recent years where longevity has declined. Infant mortality has gone up alarmingly; one out of six babies who survive suffers serious disabilities. Alcoholism is rampant, far more extensive than our drug plague. The whole military apparatus now consumes between 25% and 35% of GNP (versus about 6% in the U.S.).

Western subsidies would only permit the Kremlin to avoid such politically difficult tasks as cutting back more of its foreign adventures (as it is now doing in Afghanistan). Otherwise, freeing money to finance economic growth would mean reducing the military complex and sharply curtailing the power and privileges of the Communist Party elite.

The average Soviet citizen has been less than enthusiastic about perestroika. He knows only that the stores are still threadbare, that his only escape, alcohol, is far more difficult to get. Moreover, the actual ideas for perestroika are far too mild, too restricted to be effective. The Soviet worker would end up working more and getting less for his efforts. The Soviets have shown no signs of being as bold as the Chinese.

We should keep our defenses strong. We should make no economic deals on the basis of wishful thinking. One can hope that the Kremlin's empire will open up, that meaningful institutions will arise with a power base genuinely independent from that of the Communist Party.

But there is little we can do directly to make such good things come to pass.

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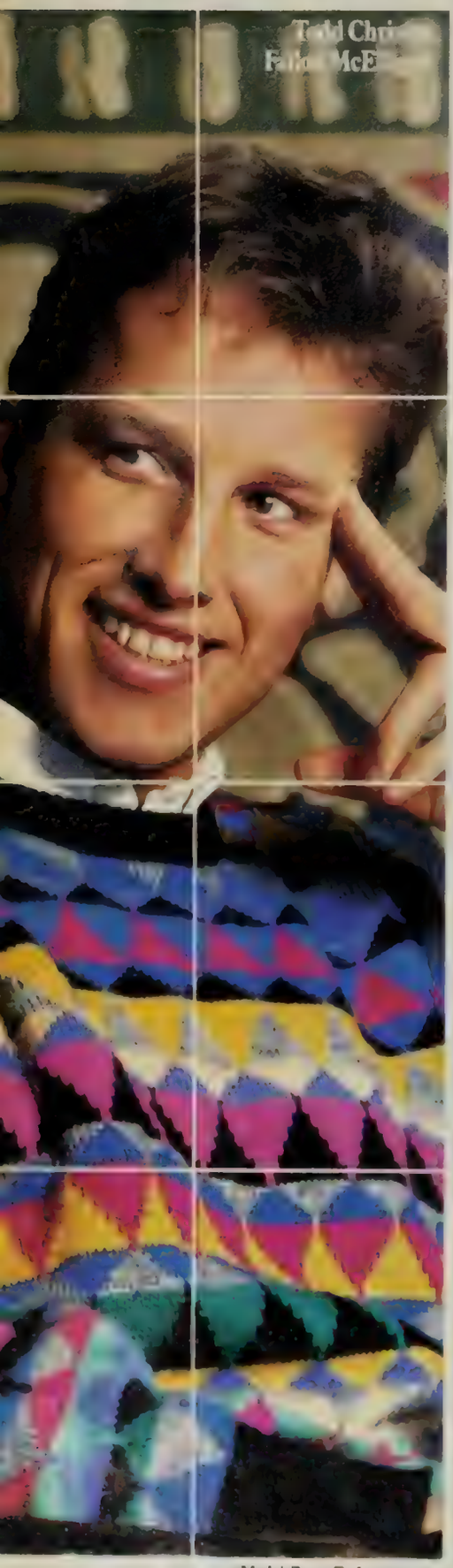

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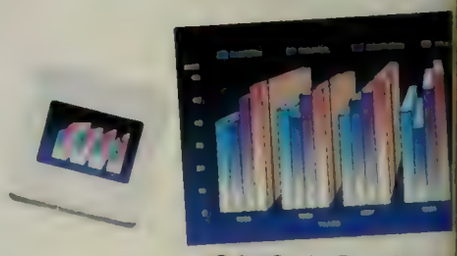

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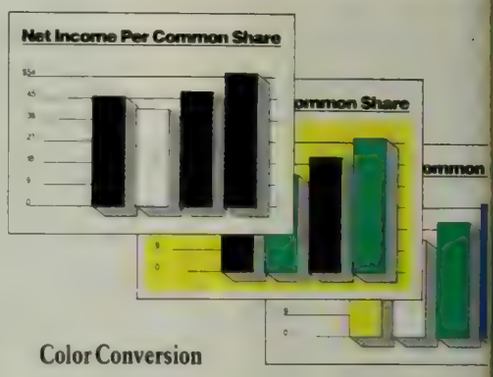

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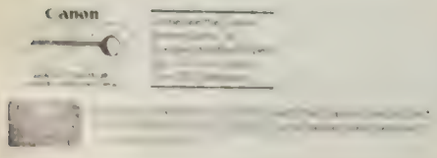

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Edited by Howard Banks

REAL PROGRESS ON LDC DEBTS

Brazil will be rewarded for good behavior

THE NEW $5.2 BILLION FINANCE PACKAGE FOR BRAZIL from the commercial banks, just announced, is clearly a sign that genuine progress is being made with Latin American bank debt. The package includes debt-for-equity swaps, exit bonds (heavily discounted bonds exchanged for outstanding loans) and conventional refinancing.

This money takes commitments by commercial banks close to the goal of $20 billion in new LDC lending over three years targeted by Treasury Secretary James Baker III's plan of October 1985.

That should end the sniping by the U.S. Treasury and International Monetary Fund that the banks have not been doing their share.

True, the $5.2 billion for Brazil (at the now standard $^{13}/_{16}$ of a point over the London Interbank Rate) is intended to cover interest payments through June 1989 on Brazil's $76.4 billion of outstanding commercial bank debt, $23 billion of which is with U.S. banks. But Brazil has earned breathing room. Brazil should generate at least a $14 billion trade surplus this year, third largest after Japan and Germany.

Argentina's debt problem remains a thorny one

OF THE FOUR COUNTRIES that account for 75% of the $300 billion Latin American debt held by the commercial banks, two others, in addition to Brazil, are better now than at any time since the crisis of 1982.

Mexico ($72 billion bank debt, of which $23.6 billion is owed to U.S. banks) has seen nonoil exports grow fourfold since 1983, to $14 billion. It now has a current account surplus, plus $15 billion in reserves (some of which is likely to be wasted defending the exchange rate).

Venezuela ($24.3 billion bank debt, of which $8.4 billion is owed to U.S. banks) is to repay $1.1 billion of principal.

But Argentina ($38 billion bank debt, of which $9 billion is with U.S. banks) remains a tough problem. There's $30 billion in flight capital and over $5 billion of U.S. bills being used in the country because nobody trusts the austral. The proposed new IMF policy to be more flexible in dealing with debtor countries will be tested here.

Japan's new role in tackling Third World debt

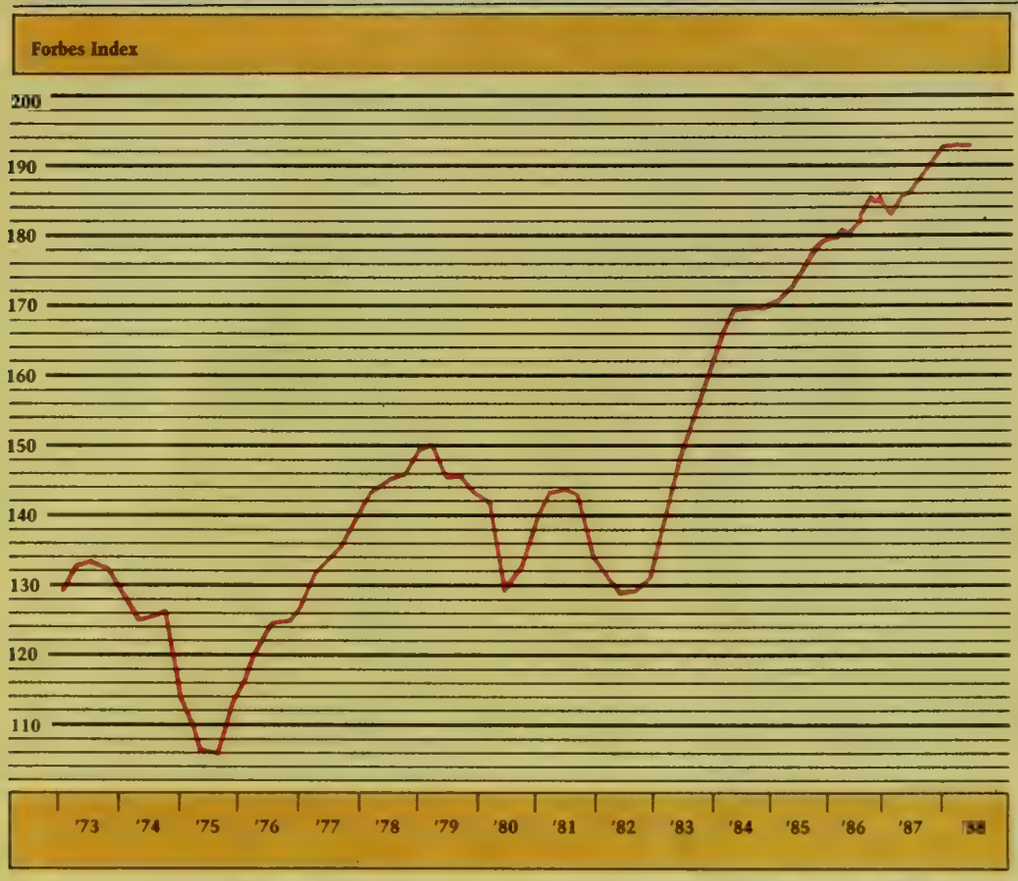
GENERAL PROGRESS WITH LDC DEBT has resulted from economic growth in the industrial countries and from a broader acceptance of market-oriented policies among the borrowers (privatization, fewer make-work projects, fiscal restraint) in return for financial aid.

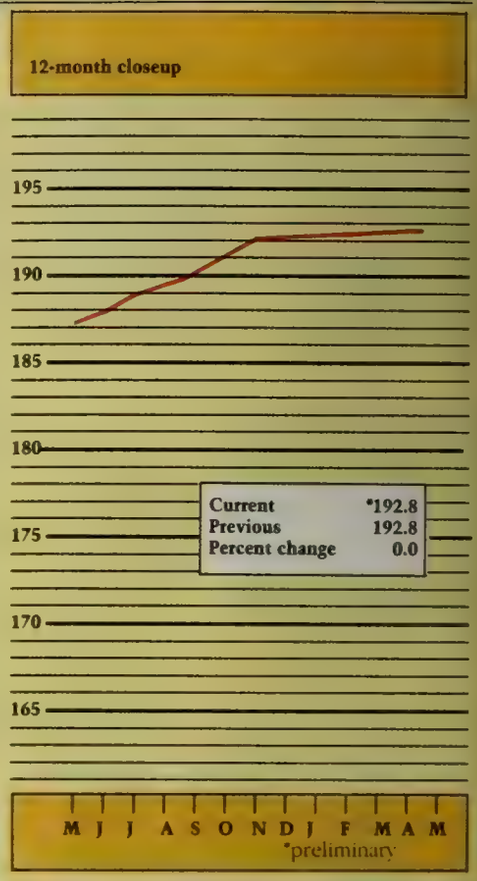
But watch for the U.S. role in tackling Third World debt to give way increasingly to Japan, partly because it has the world's largest surplus.

Straws in the wind: Japan's new $50 billion aid plan over five years and its push at the economic summit to switch some commercial debt held by middle-income countries like Bolivia and Peru onto the IMF and World Bank (resisted by the U.S.). Note, too, that the first top executive of the new Multilateral Investment Guarantee Agency, which will insure new commercial lending to LDCs, is to be a Japanese.

There's more than symbolism here. If Japanese preferences begin to take precedence over those of U.S. banks, expect Japanese companies to get first crack at new airports, dams and such built with aid money.

The Forbes Index





Adverse weather. The severe Midwest drought has caused a sharp upsurge in the price of agricultural futures but, as yet, is having little impact on consumer food prices. Meanwhile, the housing market remains sluggish. New housing starts fell 9% from April to May and are off almost 12% from May 1987. The first quarter of 1988 was the worst quarter for homebuilding in six years.

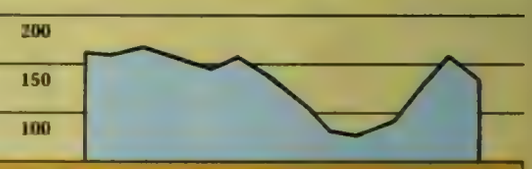
Industrial production, marking its eighth straight monthly advance, rose to a record $136 billion. But retail sales crept up only 0.1% in May. One explanation for the paltry increase is the level of consumer indebtedness. The latest figure for consumer installment credit, $633 billion, is 8.5% higher than it was a year ago. Over the same period personal income increased only 6.9%.

The Forbes Index Components

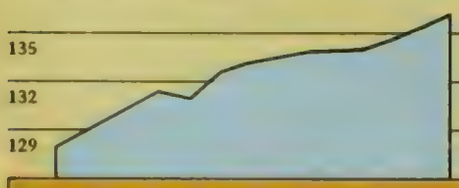
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.

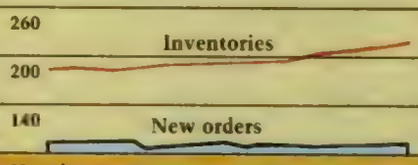
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)



New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)

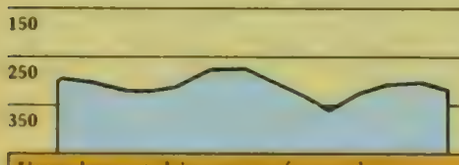


Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

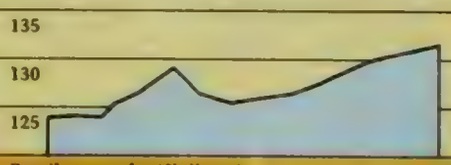


Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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Israel is struggling to free itself from a legacy of labor excesses and mismanagement. To put its economy on a more efficient basis, it is looking to Beverly Hills for possible financing.

Mike Milken's foreign policy

By Matthew Schifrin

Drexel Burnham Lambert's Michael Milken has underwritten tens of billions of dollars in high-interest bonds, but one of his favorites was a smallish issue underwritten in 1986: $100 million in 12% bonds due in 1996 for Koor Industries, the largest industrial enterprise in Israel. Without this opportune financing, Koor would have reported a loss in 1986 and might well be insolvent today.

As a friend and supporter of Israel, Milken knew what was involved and put his full support behind the issue. Koor's 300 subsidiaries and 30,000 employees make it the small country's biggest employer and contribute 15% of Israel's badly needed exports. Koor products range from advanced weaponry and farm equipment to refrigerators and even windsurfers.

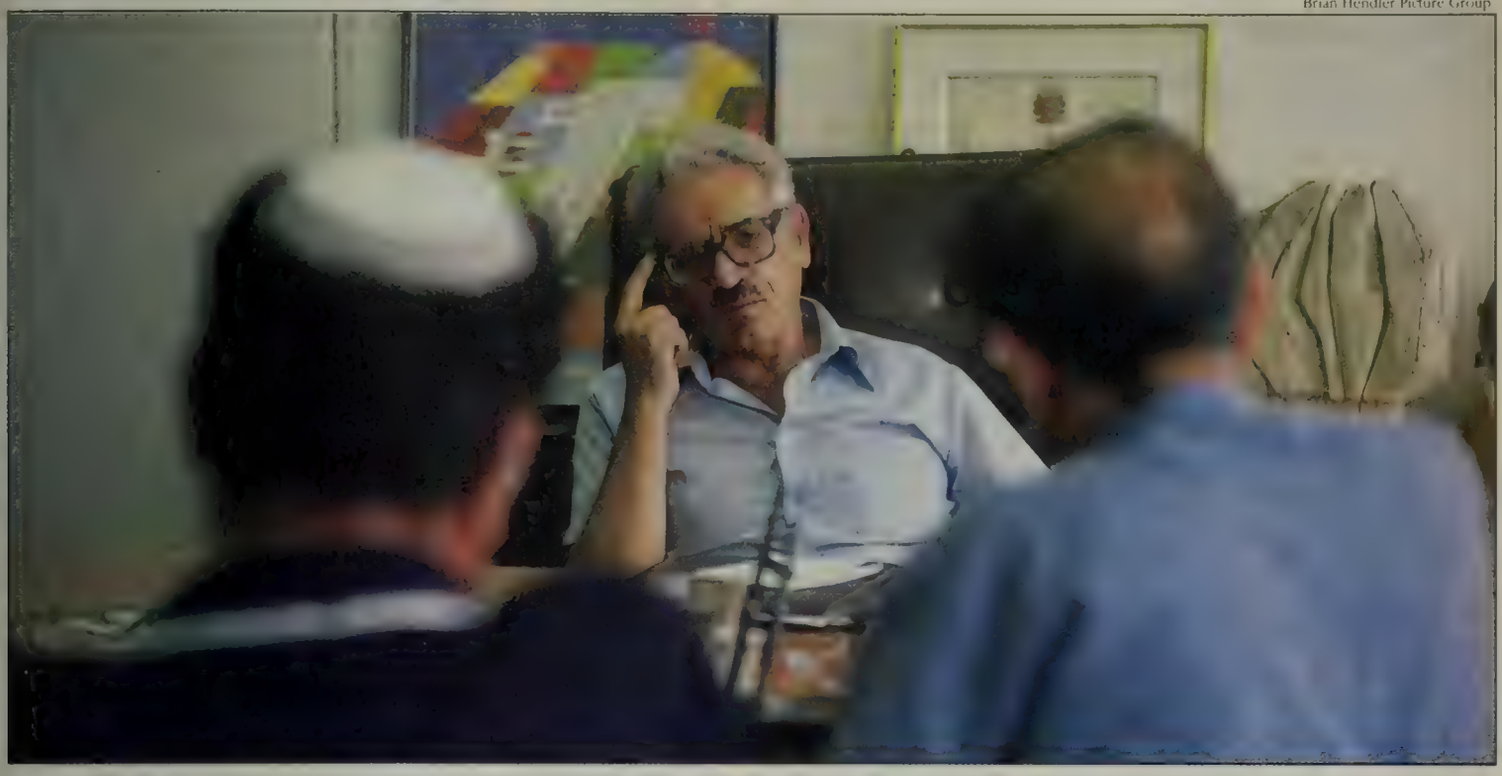
Koor had been marginally profitable for years but got into deep trouble when Israel launched a tough anti-inflation program, which caused Koor to lose heavily on both exports and defense business. In 1987 the losses came to some $230 million on $2.5 billion in sales. Debt mounted to at least $1.6 billion. The 1986 Drexel

Brian Hendler Picture Group

Workers protesting outside bankrupt Alliance Tire & Rubber in Hadera, Israel
Feeling the pinch after years of socialist featherbedding at Koor.

Israel Kessar, secretary general of Israel's general federation of labor
The dilemmas of a man forced to wear two hats.

Brian Hendler Picture Group



bond issue brought in fresh cash that also resulted in huge interest rate savings: The issue, costing 12%, enabled Koor to pay off 25% loans from Israeli banks. Still, the company's situation remains desperate.

Who owns Koor? It is part of Hevrat Ha'Ovdim, a $5 billion (sales) conglomerate owned by Israel's Histadrut labor federation. Histadrut's holdings include Bank Hapoalim, Israel's biggest bank, with $30.6 billion in assets. Hevrat Ha'Ovdim, a remnant of old socialist ideals, with its attendant labor featherbedding and inflated costs, plays a major part in Israel's current economic problems.

As is socialism everywhere—including in its homeland, Soviet Russia—socialism is in retreat in Israel. Listen to Israel Kessar, Histadrut's efficiency-minded secretary general. "We cannot suffer losses. If a factory is losing money, we may have to lay off workers and, in extreme cases, close down the plant." Histadrut's losses not only hurt the Israeli economy but also weakened the Labor Party, Histadrut's traditional ally.

The Drexel-Milken connection can be seen as part of a more capitalist orientation in Koor and in the Histadrut in general. The story goes back to the spring of 1985, when Koor's top brass turned up at Drexel's annual Beverly Hills junk bond conference. Shortly afterward, a Drexel investment banker, Joel Gold, was named to the board of directors of an important New York-based Koor subsidiary, Israel Investors Corp.

Soon Koor was riding along on the Drexel merry-go-round. Israel Investors Corp. bought some Drexel-underwritten TWA junk bonds and started to make loans to a small North Carolina carpet mill named Glenoit Mills. Why Glenoit? Turns out that Glenoit is owned by a powerful Israeli, Abraham Shapira, who heads the finance committee of the Israeli Knesset. In that capacity he could have bottled up Knesset approval of any foreign bond issues to an Israeli company like Koor. Apparently, once the loans to Glenoit started flowing, the Koor bond issue quickly sailed through. Among the eventual investors in the issue: Drexel customers Thomas Spiegel, president of Columbia Savings & Loan of California, and wheeler-dealer Meshulam Riklis.

In the past, Koor, like other Hevrat Ha'Ovdim companies, supported losing businesses with profits from profitable ones. The goal, as propounded by Israel's first prime minister, David Ben-Gurion, was to promote full employment for immigrants to Israel and to transform Israel's early economy from an agrarian to an industrial base.

Inevitably, the Hevrat Ha'Ovdim became a nest of mismanagement, waste and political and military patronage. Take the case of Alliance Tire & Rubber, a $100 million Koor subsidiary with stock that trades on the American Stock Exchange. Alliance recently became the first Histadrut company to file for bankruptcy.

Koor originally acquired Alliance in 1983 when a group of Canadian investors threatened to liquidate the moneylosing Israeli company. Today Alliance's 1,000 workers burn tires and shout slogans like "Koor is acting like an American multinational." Wearing his "union hat" as head of Histadrut, their leader, Israel Kessar, publicly denounces Koor for its harsh measures. But once he's out of worker earshot and switches to his management pose as head of Hevrat Ha'Ovdim, Kessar concedes the necessity of tough cost-cutting at Alliance.

Kessar's newly appointed choice to head Koor is a Jerusalem-born former supermarket executive, Benjamin Gaon. "The old system is beautiful if you can afford it," he says. "But now we either live or disappear. If you are not a profitable business: closed."

Koor and its people clearly hope that adoption of more businesslike management will encourage more Drexel-sponsored investment from the U.S. Though Koor's Drexel-underwritten 12% bonds had dropped to about 85 cents on the dollar, they have since recovered to about 90 cents. Clearly, the bondholders feel that, no matter how much Koor loses, the Israeli government won't let it default. A default would end prospects for more U.S. investment.

"I see Drexel and the other bankers as my board of directors," says Gaon, who has met with U.S. creditors at least once since he became president in May. "I gave them my plan and asked for a chance," says Gaon. "They said go and God bless you." ■

A harmless-sounding story about a pint-size franchisor turns into a tale of international intrigue for a FORBES reporter.

Soft ice cream, anyone?

By Richard Behar

IT TURNED OUT TO BE quite an adventure when this reporter went to the Bahamas for a story about a small U.S. company, Twistee Treat Corp. of North Fort Myers, Fla. Twistee is in the ice cream business. Essentially, it franchises dealerships that sell soft ice cream from prefabricated fiberglass stands—shaped like giant cones—in parking lots around the U.S. As a business, it isn't much. Last year's sales were $2.4 million, and the company has lost money every year since it went public in 1983.

Why look into such an inconsequential little operation? The answer is that Twistee's chairman and founder, Robert (Skip) Skinner, 59, has announced plans to develop a lavish package of hotel and casino complexes in the Bahamas.

Once on the scene in Nassau, this reporter began asking questions about Twistee's grandiose plans. The questions obviously touched a nerve, for two days later a team of agents from the local Criminal Investigation Department, the Bahamian FBI, burst into my hotel room. Search warrant in hand, they proceeded to comb the place for "unlicensed firearms and dangerous drugs." Finding nothing, they left, but not before looking through a pile of documents and notes from interviews with several prominent Bahamians.

The U.S. Embassy has demanded a full explanation from the Bahamian government on behalf of FORBES in the matter, fueling front-page stories in the Bahamian press that have simply intensified speculation about Twistee's government ties. Specifically, how did Twistee Treat get tangled up in the casino business?

Twistee has a mere $4 million in working capital, no lines of bank credit and no expertise in real estate development or the gaming business. Yet Twistee has abruptly popped up in a joint venture deal with the government-owned Hotel Corp. of the Bahamas. The plan: to develop hotel and gaming complexes on the north and south tips of the largely undeveloped Bahamian out-island of Andros, three-fourths the size of Puerto Rico. A gallon-size job for a pint-size company.

"Allegations of corruption and bad publicity have hurt our efforts to attract new investment," says Hubert Ingraham, a prominent and outspoken member of the Bahamian Parliament. "And to end up with a company like Twistee Treat is almost scraping the bottom of the barrel."

All roads in the case lead to Julian Maynard, a politically well-connected lawyer and businessman who happens to be the son of Deputy Prime Minister Clement Maynard, the Bahamian official responsible for issuing casino licenses in the country. Maynard has business interests ranging from an oil company to a bread bakery, and boasted to FORBES that he owns over 2,000 acres on the northern tip of Andros, a smugglers' haven for centuries. This property, Maynard believes, is an ideal spot for a casino.

Although Prime Minister Lynden Pindling was first elected in 1967 on a platform opposing further expansion of gambling in the Bahamas, his government today has done an about-face and is supporting casino development as a key element in its efforts to triple income from tourism—now 70% of gross national product—in the 1990s.

Last year the San Francisco consulting firm of Bechtel Group, Inc. issued a government-commissioned report identifying promising sites in the 700-island archipelago. Two areas Bechtel did not even mention were the north

Gary Hallgren

and south tips of Andros. But that didn't stop Julian Maynard.

In the winter of 1987, Maynard met with Twistee's Skinner following an introduction by a PaineWebber stockbroker in Miami. The meeting was ostensibly for Maynard to express interest in buying several Twistee franchises. But it ended with Twistee agreeing to buy and develop 118 acres of Maynard's Andros property as a gambling and resort complex.

As an enticement, Maynard even offered to arrange for Twistee to purchase a locally owned armored car company in which he had a stake. Such a sale would be in apparent violation of a 1976 law that prevents non-Bahamians from engaging in this business. "If Twistee has managed to get a license [to operate armored cars], I'd sure like to see it," says Floyd Jones, who runs the rival armored car company in the island nation.

Nonetheless, in February Maynard sold Twistee the armored car company and the 118 acres. Twistee, whose stock has lately been trading at around $1.75 a share and hasn't moved much all year, paid with 1.3 million shares. Further, it offered warrants for 700,000 more at $1 a share, contingent on Maynard helping Twistee round up outside experts capable of actually managing the development of Andros. In May the government-owned Hotel Corp. of the Bahamas joined in, signing a three-stage contract with Twistee. In the deal, Twistee agreed to provide architectural plans, a proposal for site development and necessary financing in return for tax breaks and what Twistee says are exclusive casino rights on all of Andros for 20 years.

Can Twistee—whose current assets total scarcely more than $5 million—round up the $50 million to $85 million or more it concedes it will need simply to launch the project? Questionable. So, why did Maynard pick so weak a partner?

Why not? According to Twistee, on the strength of the casino proposal the Bahamian Ministry of Works & Utilities, headed by Darrell Rolle, an Andros native, has already begun to expand a deepwater seaport and a jetport on the island. With Andros thus more accessible, Maynard's land automatically rises in value—whether the Twistee deal works or not. Remember, he sold less than 6% of his land to Twistee.

Take a moneylosing Florida franchisor trying to get into a business in the corrupt Bahamas, and you have a situation the wise investor will leave strictly alone. ■

Karl Bays has been at the helm of IC Industries for barely a year. But already his conglomerate is dishing up surprises.

"The right side of the growth curve"

By Charles Siler

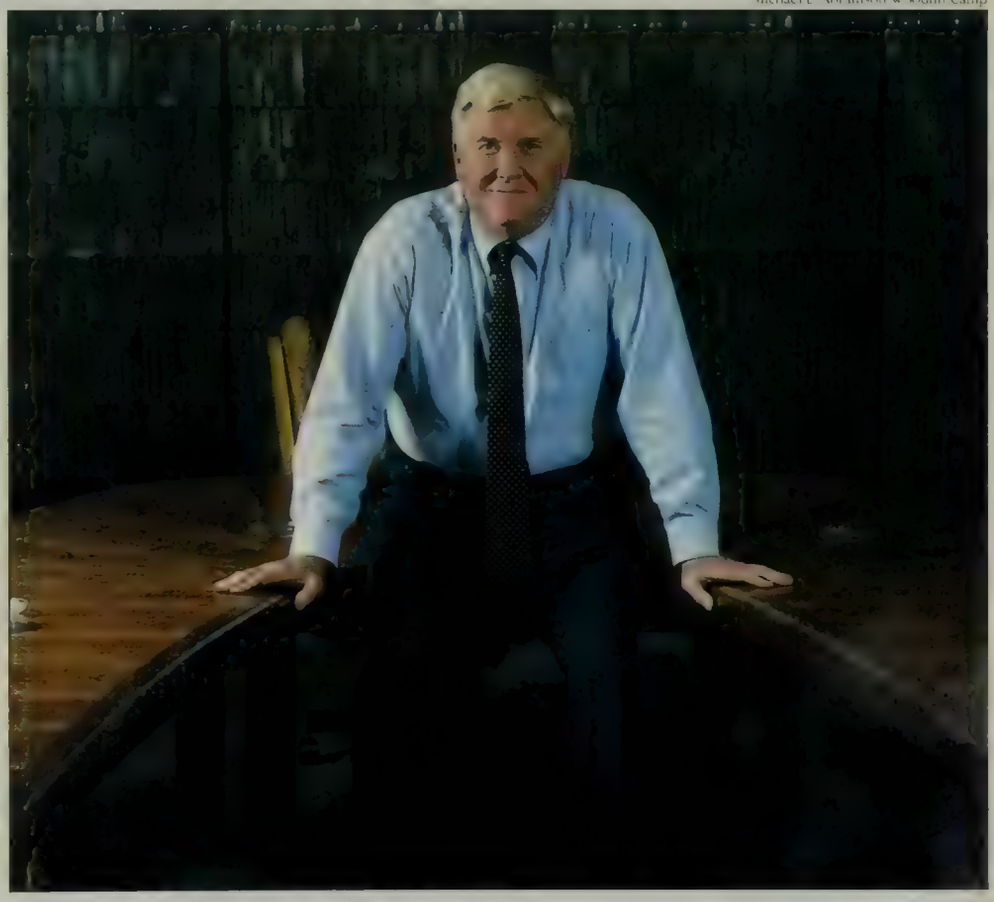
DOES IT MAKE ANY SENSE for Chicago's $4 billion (sales) IC Industries, Inc., which brings us basic consumer products like Pet evaporated milk, Midas Mufflers and Pepsi-Cola, to be dabbling in a rarefied high-tech enterprise like the development of artificial blood? You bet.

Wall Street figured Karl Bays, IC's chairman and chief executive, had strayed from the path in early June when he spent $30 million for an 18% stake in tiny, privately held Northfield Laboratories, a company developing the blood substitute. But Bays is waving a flag. For him, the purchase publicly marks the sort of radical change he wants for stodgy IC.

Northfield, clearly, is only the first of a series of small investments in high-risk, high-tech businesses to come. Many may flop, but those that succeed, he says, should produce big new profits in the 1990s.

"I don't want to be back in the Sixties and Seventies type of

Michael L. Abramson/Woodfin Camp



Karl Bays, IC's chairman and chief executive
"I don't want to be back in the Sixties and Seventies type of businesses."

businesses," says Bays, 54, a cigar-smoking ex-Marine. "I like embryonic businesses on the right side of the growth curve."

Bays, in any case, is no stranger to biotech. For 15 years he ran American Hospital Supply, the big medical products distributor bought for $3.8 billion in 1985 by archrival Baxter Travenol Laboratories Inc. Formerly a director of IC, Bays was named a year ago to replace William Johnson, who resigned after suffering a stroke.

Talk about hitting the ground running. The Illinois Central Gulf Railroad, IC's marginally profitable but cash-hungry railroad—it has gobbled up $1 billion over the last five years to maintain its rolling stock and track—is being spun off to shareholders. IC's big defense business, Pneumo Abex Corp., which produces aircraft landing gear and passenger loading bridges, is being sold for $1.3 billion to a joint venture formed by the Henley Group Inc. and Wasserstein, Perella, and Co., Inc. Aggressive pruning elsewhere has cut annual costs by about $80 million.

Bays has also worked hard to build on other IC businesses. For instance, when a study showed that the company's Pepsi bottling unit could be more profitable if it expanded, IC tried to buy RKO Bottling Inc., a Pepsi bottler in Ohio and Indiana. PepsiCo objected, but Bays, meeting with Pepsi boss Roger Enrico, struck a deal to form a joint venture 80% owned by IC and 20% owned by PepsiCo. That deal will take IC's bottling operations into three more states.

Result: Profits last year rose to $251.7 million from a loss of $136.7 million in 1986. Estimates are that IC should earn about $250 million again in 1988. That's not bad, considering the 1987 results included a $74 million gain from the sale of the 20% share of the bottling operations and a full year of Pneumo Abex earnings, which will contribute to profits for only about eight months this year. Wall Street, nevertheless, is managing to contain its enthusiasm. IC's stock is trading at around 31, a multiple of 13 times estimated 1988 earnings, about even with early last year.

Bays says that money from the Pneumo Abex and other sales will be invested both to upgrade the company's core businesses and to buy businesses that will enhance IC's existing lines. His target for operating earnings growth is about 15% annually. And size per se is irrelevant. Says Bays: "I'd rather do five or ten small deals than one $2 billion deal."

Such as Northfield. Formed in 1985 by a group of scientists who had researched blood substitutes for 15 years, Northfield seems to have a two-year lead in the effort to develop artificial blood. Such blood won't carry disease, particularly important in the AIDS age. It can save a life when no natural blood is available. Formidable problems remain. Northfield must prove it can make the blood substitute in mass quantities, and more testing is required. The synthetic stuff, moreover, can't clot or be reproduced in the body.

But the goal is evidently worth the trouble. "We think this is a product whose time has come," says Richard DeWoskin, Northfield's chief executive. A Northfield competitor, Baxter Travenol, agrees. It figures the eventual market may hit $3 billion.

IC says it's in the race to stay. Although Northfield is considering going public next year, Bays has a "gentleman's agreement" to buy more of the company, perhaps a controlling stake, before then.

There's no guarantee, of course, that Karl Bays' consumer-conglomerate version of IC Industries will work. Consumer-dependent companies can be every bit as vulnerable as industrial ones to economic downturn. But Bays believes the rebuilt IC will grow faster and more consistently. And he has the company moving in a focused direction again.

"I'm a manager," Bays says. "It's all I ever wanted to do." That, he certainly is. ■

In developing a leisure industry, the Japanese have been turning to the U.S. for their knowhow. Déjà vu?

A yen for fun

By Ellen Paris

THEY WON'T BUY our cars or our machinery and they resist our steaks and oranges, but we may finally have found something to sell the Japanese that we make better than they do: entertainment.

Leisure is a foreign concept in Japan. There's not even a Japanese word for it. The closest word is *yoka* Roughly translated, it means time not well spent. But times are changing. Real income is growing, the workweek is shrinking. The leisure market—theme parks, resort hotels, golf courses *(see story, p. 130)*, restaurants, boats, sports clubs, tourism and pachinko—is now one of the fastest growing in Japan. Nomura Securities estimates leisure-time spending will go from $400 billion now to around $800 billion at the turn of the century.

American companies figure to profit nicely from this cultural transformation. Says Takashi Nakamura, who runs the Los Angeles operations of Dentsu, Inc., one of the world's largest advertising agencies: "It will be five to ten years before we can do it ourselves, so now we are in the joint-venture, coproduction stage."

Dentsu plans to tap U.S. talent in the leisure field for its roster of Japanese clients, which includes local governments as well as industrial companies. Its clients are considering investing in cineplexes, amusement parks, aquariums, marine theme parks such as Sea World, festival marketplaces, and European-type amusement parks like Copenhagen's Tivoli. "We need American expertise," continues Nakamura. "Japan now can afford it."

The opening of Tokyo Disneyland in 1983 was a watershed. More than 50 million Japanese have visited the Magic Kingdom on Tokyo Bay in the past five years.

Craig Davis SYGMA

At Tokyo Disneyland
A changing culture.

Frank Stanek, executive vice president of MCA Enterprises International, knows the Japanese market well. He thinks Disneyland opened Japanese eyes to the prospects for leisure-time investments. A former Disney executive, he worked with Oriental Land Co. to build the park. Now with MCA, he's going back to Japan. Last October MCA Enterprises, a subsidiary of the Universal City, Calif.-based entertainment giant, signed a deal with Nippon Steel to look into bringing a Universal Studio Tour theme park to Japan. The park (estimated to cost around $500 million) would be a clone of MCA's park now under construction in Orlando, Fla.

The Japanese government is encouraging this new emphasis on leisure. Last year it passed the General Resort Law, a package of tax and other incentives for leisure projects. "Japan," says Gary Goddard, chief executive of Hollywood-based Landmark Entertainment Group, "is like the U.S. in the late Fifties, ready for a leisure industry." Landmark, which has designed the *2010* and *King Kong* attractions for the Universal Studio Tour in Los Angeles, helped design a $180 million, 7-acre theme park, being built by gift company Sanrio Co., Ltd. (FORBES, *May 18, 1987*) in the city of Tama, west of Tokyo.

"There are a lot of big companies diversifying, and they are thinking about the leisure industry," says Ray Braun, senior vice president of the Los Angeles-based consulting firm Economics Research Associates. His firm is consulting on four Japanese leisure projects, including a theme park and a resort development, with a total value of $4 billion. His clients include Dentsu, Osaka Port Authority, Mitsubishi, Mitsui Engineering & Shipbuilding and Shimizu Construction.

That steel companies and other heavy industrial companies would want to get into the leisure business might seem odd—until one remembers that Japan expects a decline in heavy industry as other Pacific Rim countries cut into its markets. Shipbuilding and steel companies, aging industries with huge real estate holdings, seem especially keen to tap the leisure markets. Industrial and waterfront sites are prime areas for development. Take Nippon Steel, Japan's largest steelmaker. Besides the MCA deal, it is planning to build a "space camp and science center" on the site of an old steel mill on the southern island of Kyushu. The design consultants? Los Angeles' R. Duell & Associates. Duell's Ira West says a dozen Japanese firms have approached him about designing theme parks and exhibits for world's fairs.

As Japan learns to beat its steel mills into theme parks, its shipyards into tourist attractions, it won't let the old manufacturing sites sit vacant. Land is precious in Japan. DKK, a Tokyo-based flooring and roofing company, is building game centers on the roofs of buildings. Sun Valley, Calif.-based Sequoia Creative Inc. has been working with DKK to design a 4,000-square-foot miniature golf course on top of a building. Sequoia is also working on a $500 million marine theme park.

"The Japanese business started coming in about two years ago," says David Schweninger, Sequoia's president and a 21-year veteran of Disney who, like MCA's Stanek, worked on Tokyo Disneyland. "The Japanese want to be Westernized, and part of that is having your own theme park."

Clearly, the Japanese are turning to Americans for help in the entertainment business. But don't relax. The Japanese learn very fast. Cautions Economics Research Associates' Braun: "Since the Japanese are high-tech-oriented, maybe they can develop a new form of entertainment. Then, obviously, they would like to plop it all over the country and export it back here." ■

Weltschmerz, n. *1: mental depression or apathy caused by comparison of the actual state of the world with an ideal state; 2: a mood of sentimental sadness.*

Webster's Ninth New Collegiate Dictionary

Germany—the last high-tax domino?

By Peter Brimelow

EARLY SUMMER may already be scorching the U.S., but on a Sunday in West Germany the skies are gray and the bleak modern downtown of Frankfurt am Main is empty, apart from a few Turks mournfully attempting to promenade in the Mediterranean fashion.

Not a bad symbol, perhaps, for the Frankfurter Konferenz Steuersystem und Wirtschaftswachstum—the Frankfurt Conference on Taxes and Growth. The conference was held by a group of supply-siders, anxious to persuade Germany to prod its economy into greater activity by lowering taxes. As in downtown Frankfurt on that gray Sunday, inertia seemed to rule.

Two years ago the Manhattan Institute, the influential think tank, exported its supply-siders to London for a similar conference that has been widely credited with helping persuade Margaret Thatcher's long-skeptical Conservative government to slash marginal rates in its last budget. The Frankfurt session was sponsored jointly with the Frankfurter Institut für wirtschaftspolitische Forschung and Cologne's Institut der deutschen Wirtschaft.

The next day an invitation-only audience of about 70 German economists and officials listened intently, often casually eschewing the simultaneous-translation earphones upon which the American speakers were ignominiously dependent.

There is a paradox here, of course. Supply-side economics remains controversial in the U.S. But it has helped stimulate big tax cuts not only in the U.S. but also in the U.K., Canada, Norway, Austria, Japan, Singapore, South Korea, New Zealand, the Philippines, Indonesia, Turkey, Jamaica, Colombia, Bolivia, Mexico, Grenada, Israel, Botswana, Ciskei, Mauritius, India, China and several other countries. But West Germany has remained aloof, its top marginal tax rates will still be 53% on incomes above 120,000 DM, even after current reforms. Could it be the last domino to fall?

The Germans themselves, at least on the evidence of this meeting, are quite dissatisfied with their economy, despite its export successes and relative fiscal conservatism. But they seem at a loss as to what to do about it. Weltschmerz is alive and unwell here. For all their prosperity, West Germans seem depressed, unwilling to act.

The Germans complained about a shortage of domestic investment opportunities, which has led to a continual emigration of capital—the exact obverse of American fears about foreign indebtedness. Furthermore—and not coincidentally—the Germans said that what they call their "density of regulation" is among the highest, and most stifling, in the Free World. The result has been stagnation. Speakers noted that the German birthrate has sunk below replacement, so that the proportion of aging dependents in the population, relative to the work force, is increasing. This demographic problem in turn underlies an official preoccupation with savings and with fiscal balance, leaving little maneuvering room.

Which is especially ironic, as the speakers repeatedly pointed out, because the first supply-side experiment in modern times occurred almost exactly 40 years ago in West Germany, on June 22, 1948: Finance Minister Ludwig Erhard's sudden abolition of the economic controls that the Allied Occupation authorities had imposed on Germany, arguably to cripple it. These controls included probably the most steeply graduated income tax schedule in the world. It was replaced with probably the flattest code in the world, giving much greater rewards for additional effort, including no tax at all on overtime work.

West Germans continued to enjoy lower marginal tax rates than Americans, even after the Kennedy Administration's tax cuts in the early 1960s. Then they allowed inflation to push them into the higher brackets, thus doing to themselves what their conquerors had failed to do.

"All the country really needs to do is reimport an idea," economist Alan Reynolds told the meeting.

The essence of the U.S. supply-siders' case is that it worked. Professor Allan Meltzer of Carnegie-Mellon University was critical of some aspects of Reaganomics, but he pointed out that in the Reagan years the U.S. turned in better inflation, growth output and unemployment performances than the OECD as a group. After the 1982 recession, a consequence of disinflation and plausibly attributable to the previous Administration, U.S. economic growth and industrial production practically tied that of Japan. And, contrary to constant carping, this was achieved with levels of budget deficit, public debt and foreign indebtedness that are not, relative to GNP, internationally exceptional or necessarily unmanageable.

On the other hand, Meltzer said, in order to service its foreign debt, the U.S. economy, too, would eventually have to reorient toward exports. It could do this reasonably smoothly if the Germans cut their taxes and started growing and importing. Alternatively, they could continue financing the U.S. indefinitely. Or they could stop, perhaps precipitating a global recession. Which would they like?

To help the audience with this difficult decision, Harvard's Lawrence B. Lindsey reported his research on the effects of the Reagan tax cuts. Even on a conservative interpretation, he said, taxpayers clearly responded to the increased incentives. And lowering rates on the highest incomes did pay for itself: At those levels, total tax receipts actually rose.

Why not Germany? In an entertaining exchange of views with a man from Bonn's Finance Ministry, the speakers established the decisive point: German government econometric models—just as in Britain, until recently, or in the U.S. prior to 1980—simply assume that there will be no increase in output as a result of cuts in marginal tax rates. Weltschmerz again; action is futile.

Pressed, a good many Germans will argue that their government's fiscal conservatism traces to fears of hyperinflation. But the argument is threadbare: The Weimar Republic generation is fast dying out; for most Germans a bushel of money for a loaf of bread is but a dim bit of history. German fiscal policy seems more gripped by intellectual inertia than by any real fear of inflation. ■

When an opportunity is grabbed by everyone at once, it won't be an opportunity for long—especially so when bankers "discover" a hot new market.

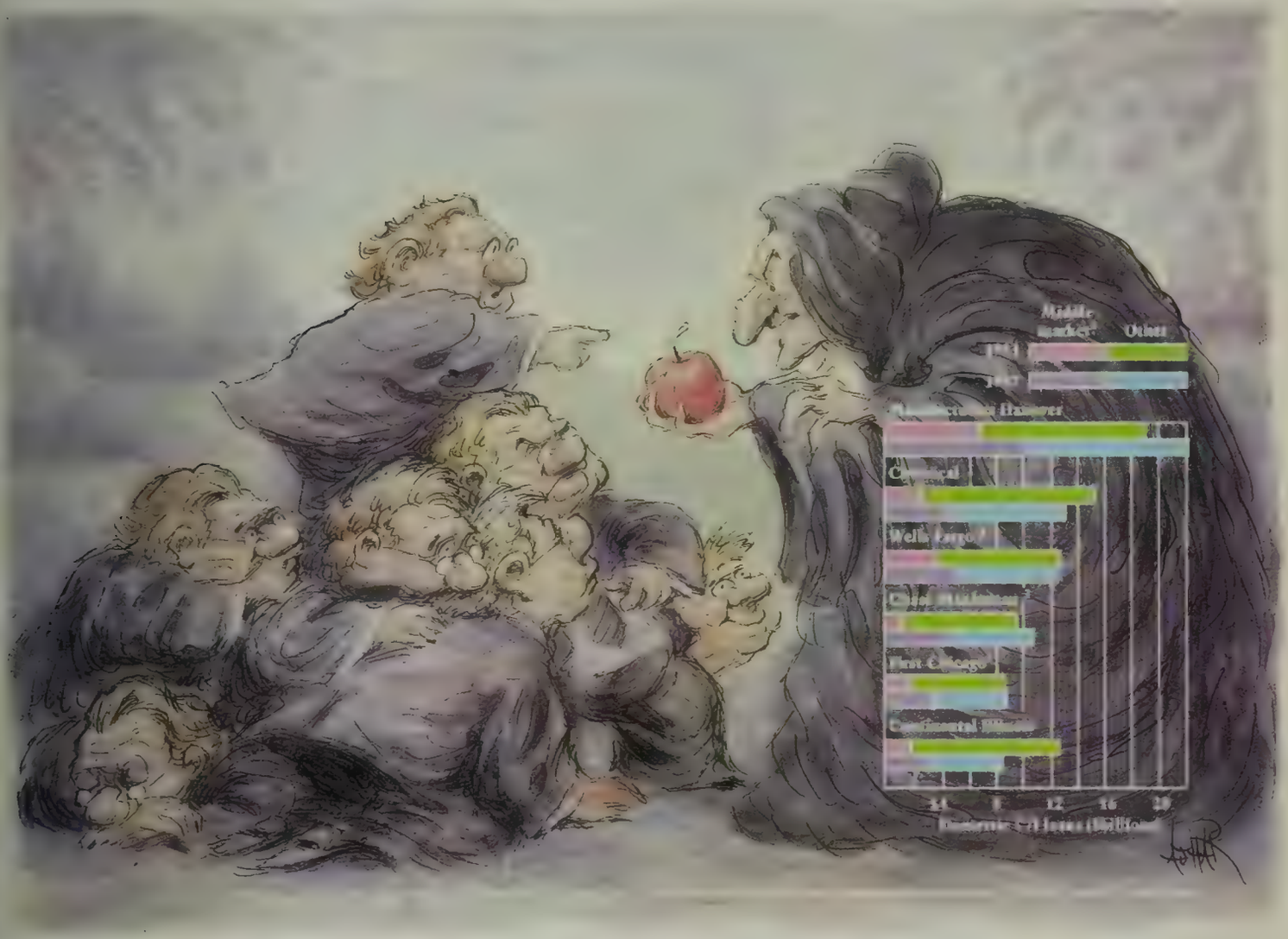
Please take our money

By Ralph King Jr.

In early 1984 Russel Every was one frantic fellow. Lamson & Sessions Co., the Cleveland industrial parts company he heads, was on the ropes. Were the banks helpful? Quite the contrary. They were hounding the company to pay up on $55 million in loans outstanding. Eventually Every's creditors got 57 cents on the dollar in cash. But then came the economic recovery of America's industrial heartland. Now Lamson & Sessions (1987 sales, $340 million) is once again in the black. The banks? You guessed it. They are trying to push money on the company.

Welcome to the latest twist in a familiar banking story with many chapters. One chapter was headed oil-based loans. Another: Third World loans. Others: ship-based loans, real estate loans. It's a long list. Bankers keep discovering hot new markets and trampling one another to get in. Lamson & Sessions is in the latest such market—loans to small and mid-size manufacturing companies. The U.S.' money center banks and aggressive superregionals are shoving aside smaller rivals to grab a piece of the action in the so-called middle market, consisting largely of manufacturing firms in the $10 million to $250 million range.

Over the last five years, total commercial and industrial lending by leading money center banks has either slowed or actually declined. But lending by a half-dozen of the top banks to the middle market has



Middle-market mania

While growth in domestic commercial and industrial lending overall has slowed or declined at leading money-center banks, they are rapidly booking loans to middle-market companies ($10 million to $250 million in sales).

jumped 39% or more, for a total of more than $25 billion in middle market credits on their books *(see chart, p. 41)*. They are finding plenty of such loans in what not so long ago was dismissed as "the rust belt." America's export boom, led by the weak dollar, has pumped new life into once-moribund manufacturers like Lamson & Sessions everywhere.

From Pittsburgh to St. Paul, in airports and factory office waiting rooms, the loan merchants are arriving armed with Dun & Bradstreet printouts, glossy marketing packages and a mandate to get money out the door in a hurry. "They're more aggressive than they've been in a decade," says David Brennan, chairman of the Akron, Ohio-based Brenlin Group, a conglomerate of middle-market metal benders. "We're being accosted ten times as much as five years ago."

The big banks are especially hot for this business since their Forbes 500 corporate customers have turned almost entirely to commercial paper markets for borrowings. Interest rate spreads in the middle market—the difference between what banks pay their depositors and what they charge customers for loans—have traditionally been several hundred basis points better than in high-end corporate banking. There are fat fees tied to the exotic forms of financing—cash-flow lending, recapitalizations, leveraged buyouts. And there are fees for sophisticated products and services like trade finance, foreign exchange, private placements, swaps, etc.

And, of course, the predictable is occurring. To get the business, to edge out rivals, banks are shaving interest rates and stretching credit terms. Since 1985 commercial loan rates have fallen from an average 250 basis points over the cost of funds to between 150 and 100 points over cost. At the same time, advance rates—the amount a bank will lend against collateral such as receivables, inventory and equipment—have been rising. Many banks now lend over 90% of the value of a company's receivables, for example, up from 75% only two years ago. "A savvy borrower can cut himself a very good deal these days, especially in the Midwest," says William Mitchell, chairman of Chicago's Lake Shore National Bank.

One loan-getting gimmick now offered by certain hungry banks is something akin to a home equity loan for businesses. In the Detroit area, lenders include Chemical, Continental Illinois, Bankers Trust and Citicorp. They approach company owners with the idea that keeping large amounts of equity locked inside their firms is unwise and unproductive. Here's a way, they explain, to pull the equity out and yet keep control. A way to lock in a more predictable return elsewhere, diversify the family fortune, build a castle or buy a yacht without losing hold of the company.

Does this make sense in highly cyclical businesses, which are at the mercy of such unpredictables as the value of the dollar and trade flows? A growing number of bankers are getting worried. "You really have to stay close to middle-market companies," says Lake Shore National's Mitchell. "They can get in trouble easily because their depth is often thin."

"You can't let competition dictate deals," says Joseph Pollicino, vice chairman of the CIT Group, an asset-based lender owned by Manufacturers Hanover. "There are a lot of inexperienced players that will have serious problems." Pollicino says he is reluctant to lend to the chemical processing and steel supply industries, for example, which he feels are peaking.

Why is it that so many U.S. bankers have short memories? ■

Embattled and erratic, Minneapolis hearing aid manufacturer Dahlberg Inc. is making more noise than profits.

"Get off at the next stop"

By Rick Reiff

WHO'S IN CHARGE at Dahlberg Inc., the acrimonious Minneapolis-based maker and marketer of hearing aids?

"I am," asserts Jeffrey Dahlberg, 34, reappointed last month as president and chief executive officer only two years after he quit the company in a huff over meddling by his father, Kenneth, the chairman and founder.

Despite their apparent reconciliation, the younger Dahlberg, after a glance across the room at Dad, seems still unsure of his authority. "No . . . " he begins to say.

"Jeff is in charge," Kenneth interjects pleasantly.

"We're comfortable working as a team again," Jeffrey decides.

That would be a change. Discomfort has been the rule at Dahlberg, the country's third-biggest hearing aid maker (behind Beltone Electronics Corp. and Starkey Laboratories Inc.), with $53 million in sales last year and an estimated 12% share of the market. First there was a squabble between Jeffrey and Kenneth, now 70, over who was in charge. Jeffrey wasn't; he left and sold his 6% stake, most of it snapped up by two San Francisco money management firms, Robertson Colman & Stephens and Siebel Capital Management Inc.

These two teamed with a third San Francisco outfit, Aster Investment Management Inc., and now hold just over 20% of Dahlberg's 3.3 million shares. Today, they say flatly, the company has outgrown Kenneth. Its performance has been erratic, to put it mildly, and they pin most of the blame on Ken Dahlberg himself.

The company's hearing aids are sold through 400 company-franchised Miracle Ear stores and 186 hearing centers it operates in Sears stores. Sales have grown an average of 16% for the last four years, yet during that period return on equity has been a meager 3%.

Earnings fell 82% in 1986 to $160,000, or 5 cents a share, only to rebound last year to $1.1 million, or 37 cents a share, mainly because of better Miracle Ear sales. But the company suffered a fourth-quarter loss, and the $160,000 earned in the first quarter of this year was down from $371,000 earned in the same period a

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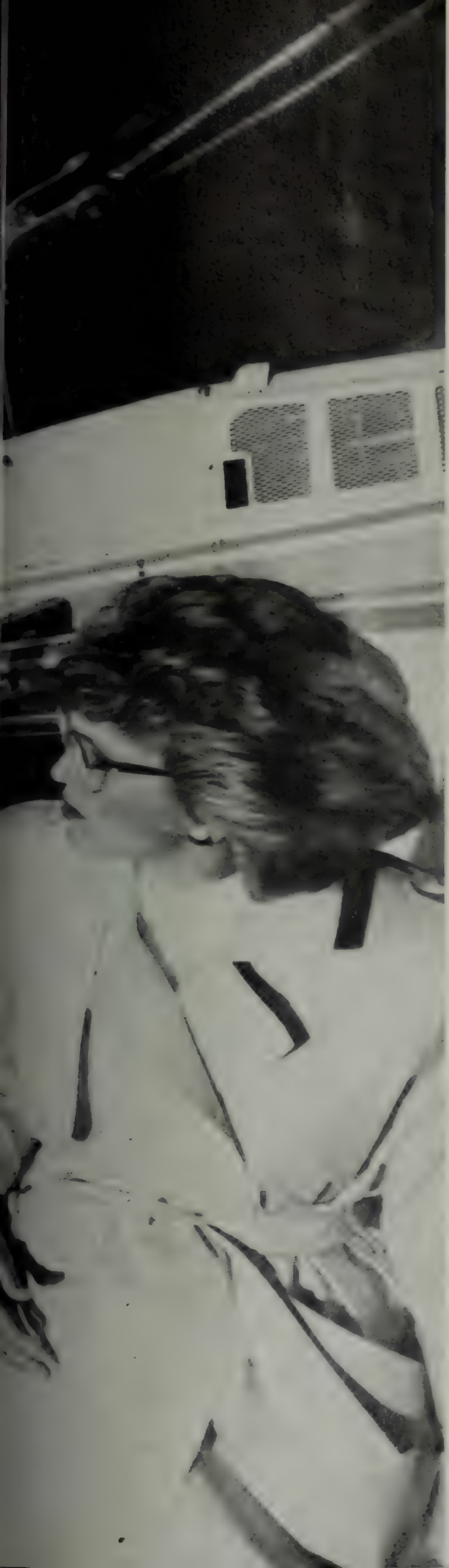

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Lane Kennedy

Dahlberg Inc chairman and founder Kenneth Dahlberg
The boys from San Francisco are not happy.

year ago. The stock, traded over-the-counter, reached 14½, near its alltime high, in March amid heavy insider buying, only to slip back to 11 in recent trading.

Reenter Jeffrey, a franchising consultant the past two years. Creative but impetuous, Jeffrey is not the California investors' idea of a successor. They want the old man to sell the company, but he's not interested.

Still, the Californians have had some impact. Just a year ago, at their prodding, Kenneth hired Robert Ponzetti, previously president of the Software Etc. unit of B. Dalton, Bookseller, as Dahlberg's president and chief executive officer. Ponzetti made some good first moves. He sold 14 unprofitable stores to franchisees and began to charge franchisees fully for customer leads that Dahlberg used to subsidize.

But Ponzetti's organized approach—for the first time, for instance, managers made appointments to see the boss—clashed with Dahlberg's homey culture. Kenneth didn't like seeing Ponzetti shove aside some of his old buddies, and he questioned whether the newcomer understood the hearing aid business. Ponzetti's two predecessors had left the company in the previous two years. No great surprise, then, that Ponzetti himself was booted out last February.

But the company's major blunders predate Ponzetti. Take Audiotone, a Phoenix hearing aid maker purchased from Lear Siegler Inc. in December 1986 for $3.9 million. Kenneth now concedes he overpaid. Audiotone remains unprofitable.

Then there's the direct cost of the revolving door in the company's executive suite. Severance payments exceeding $100,000 each to Jeffrey and two other ex-presidents have reduced earnings by about 20% since 1986.

Finally, old-fashioned sloppiness has taken a toll. The company took a $90,000 fourth-quarter loss, in large part because of surprisingly high expenses to renovate Sears hearing centers and a writedown of obsolete Audiotone inventory. Fond of startup companies, Kenneth has also gambled on such duds as Progressive Assembly Machine Co., a designer of automated factory systems that lost $120,000 over two years until it was sold, to Kenneth and a partner, in 1986. How, given that record, does Ken Dahlberg retain his hold on the company? Right. He and allies now control slightly more than half the stock.

Kenneth, a World War II fighter pilot, in fact thinks of the company as a family dynasty, comparing it with the Bronfmans of Seagram and the Marriotts. "That's what America is all about," he says, blithely ignoring the Bronfmans' Canadian roots.

Dahlberg should be doing a lot better. The hearing aid market grows as America grays. More people are willing to try the new generation of smaller, more efficient devices. The Sears operation, a loser for two years, has been marginally profitable in 1988. Audiotone's losses should abate as production is shifted to its Arizona plant from Dahlberg's Golden Valley, Minn. plant, already at full capacity. And Dahlberg plans to add 100 Miracle Ear and 60 Sears outlets this year, while selling more in Europe. Still, Kenneth predicts no significant profit surge until 1989.

The boys from San Francisco are not pleased. They talk of proxy fights or a takeover try. As of now they're still about $1.5 million to the good in paper gains on the $5.6 million they spent for their Dahlberg shares. But they had expected Dahlberg to trade near 35, not at one-third that level.

"If Ken Dahlberg wants to keep the company in the family and run it down over the years, he should be willing to take the public shareholders out," says Ken Siebel, a principal of Siebel Capital Management. Kenneth's response: "Get off at the next stop."

At this turbulent company, that's good advice. ■

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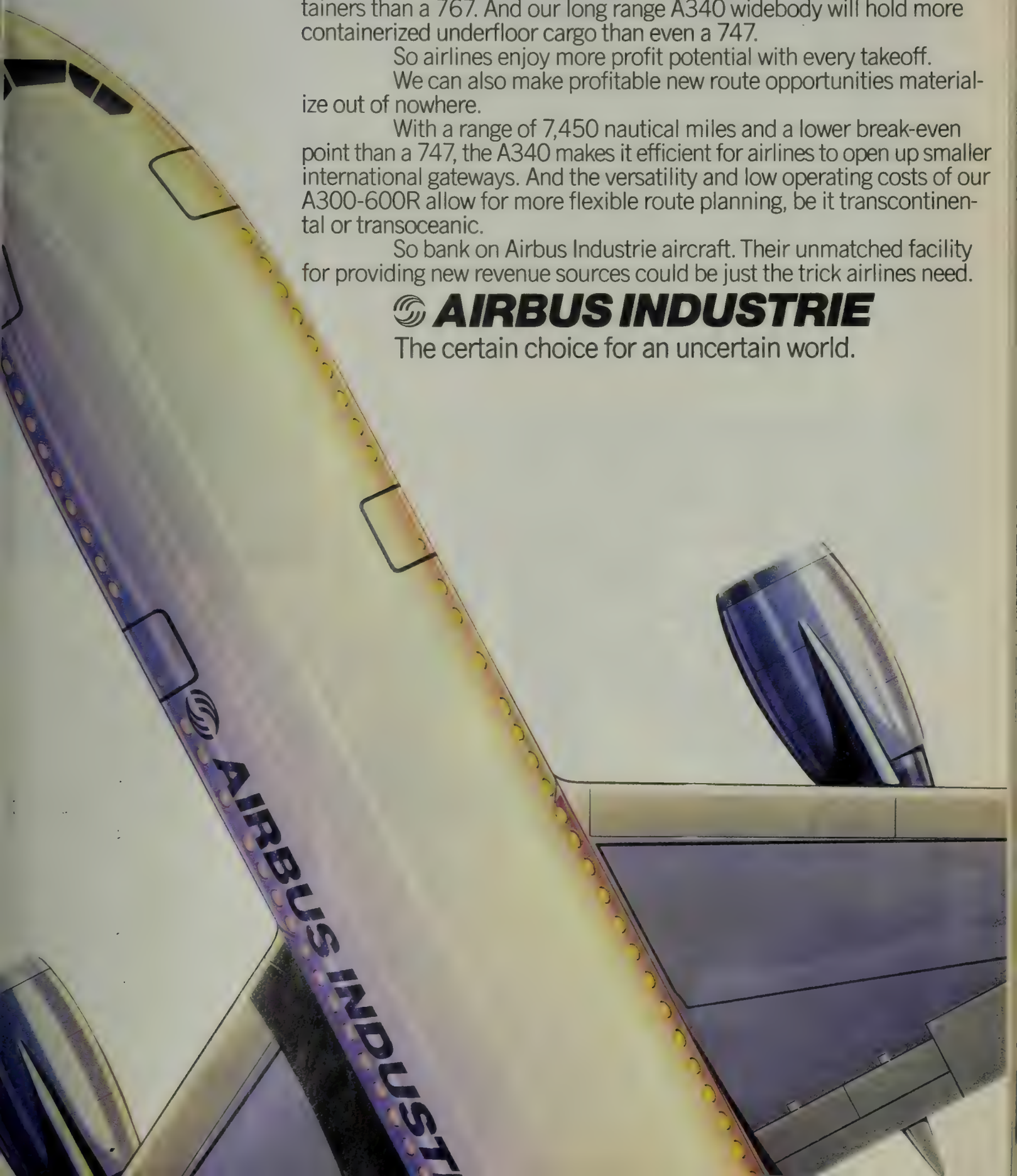
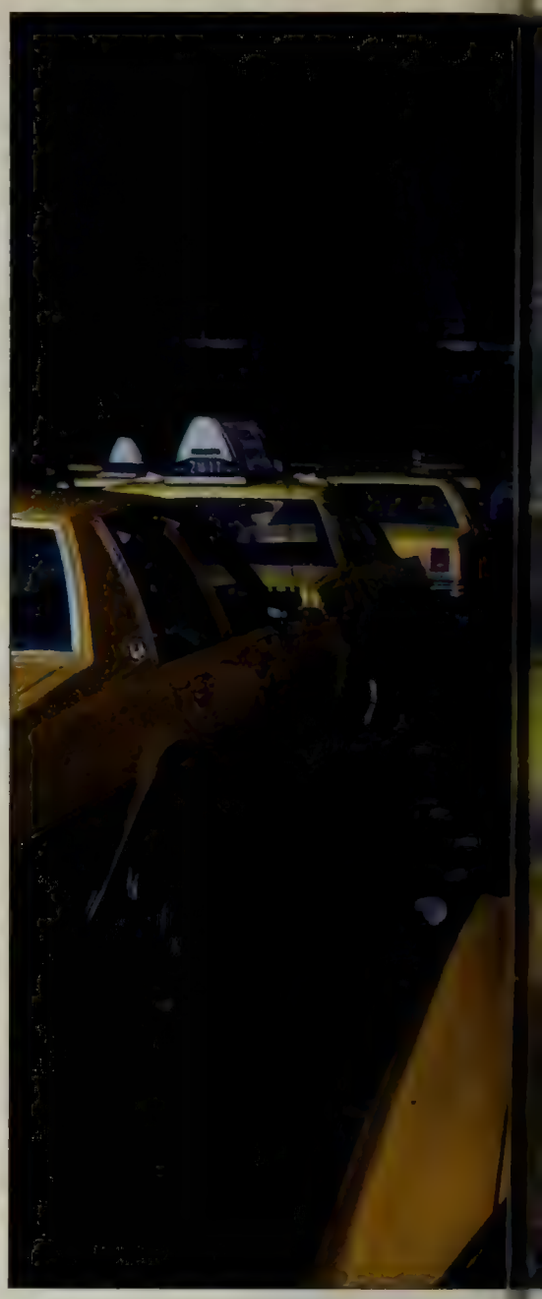


Taxi service in most U.S. cities is a disgrace. Yet the business is getting more profitable and, surprisingly, more innovative.

Regulation at its worst



By Janet Novack

IN BOSTON, executives at Fidelity Investments, the giant mutual fund manager, got so fed up with local taxis that they started their own car service and made a business of it. In Washington, D.C., British Airways executive Roger Maynard makes sure his bosses use a car service when they hit town, instead of the often dirty and dilapidated local taxis. Maynard's reaction when he first saw the shabby, wheezing cabs at Washington's National Airport: "It's more like a Third World country."

It's hardly surprising that legions of angry and frustrated taxi riders are forsaking the common cab (Yellow cabs in most big taxi towns) for limousines and the somewhat less luxurious and less expensive car services.

The fact is that local governments' regulation of taxicabs has been incompetent, rigid and sometimes corrupt. Indeed, taxis are probably the worst-regulated industry in America. But after decades of stifling government control, there are heartening signs of change, largely because of free market pressure. "We're going to make the taxicab industry better because we're competition," says Fidelity Senior Vice President James Curvey, who predicts his 50-car fleet will double in a year.

Since 1980 the number of limousine livery companies nationwide has grown fourfold, to 6,500. Predictably, the taxicab industry's first response has often been to demand that regulators squash the upstarts by controlling their numbers, rates and airport pickups. In Atlanta, for example, limos must charge at least $50 a trip and corporate cars, $40. "You could run $10 or $15 fares profitably within downtown Atlanta, but you're not al-

Kevin Horan

Jeffrey Dell and Jerry Feldman

Chicago's shifting politics have given more power to the drivers.

Yellow cabs queued up at New York's LaGuardia Airport

Derek Berg

When they can choose—and now they can do so more often—many riders much prefer anything else.

lowed because it would compete with the taxis," gripes Michael de Rivera, a suburban Atlanta operator of 120 limos and luxury cars.

Nevertheless, pressure for such services is irresistible. In New York, while owners of the 11,787 yellow taxicab medallions (now worth $125,000 each) blocked issuance of additional medallions, more than 25,000 corporate "black cars" and neighborhood livery cars managed to spring up and flourish.

Now, however, as taxi operators fight to retain their market, they too are pursuing the luxury sedan business and other innovations. Eight cab operators, for example, have formed the Arlington, Va.-based American Sedan Network, Ltd., which will soon advertise an 800 number to book luxury corporate car service in about 15 cities (credit cards accepted).

At the budget end of the taxi business, too, there are signs of intelligent life. Los Angeles cab owner Mitchell Rouse's SuperShuttle International Inc. provides cheap shared-ride/van service to airports in Los Angeles, San Francisco, Dallas and Phoenix. Despite opposition from local cabbies and footdragging by regulators, SuperShuttle has grown to $45 million in annual revenues by emphasizing reliable service. Obviously, the potential for shared rides isn't limited to airports. Sadly, local politicians, protective of their heavily subsidized public mass transit systems, often discourage such experimentation and thus help preserve the shabby status quo.

Meanwhile, larger, sophisticated operators in such places as Houston *(see box, p. 52)*, Chicago and Virginia are spending millions to install computerized dispatch systems with display terminals in each cab. The computers should speed service, cut dispatching costs and end hacks' bellyaching that dispatchers demand payoffs or play favorites. (The computer assigns the calls.)

Such capital spending would have been unlikely in the 1970s, when cab operators' fuel and insurance costs rose sharply and city officials were slow to approve rate hikes. But now the money is there. In a nationwide federal government survey, cab operators reported average gross profit margins of 11% in 1986, the most recent figures available. That's less than the rich 16% margins they enjoyed in 1970, but far better than the pathetic 4% margins they had in 1975.

Moreover, demographic trends should, if cab operators and regulators get on the ball, encourage the flow of capital to the taxi business. Air travel is booming. The number of elderly people, heavy users of taxis, is growing. And the dispersion of business to

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the suburbs has left big gaps in many mass transit systems. All in all, there is reason to hope for more innovation.

But whether basic service will improve is another question. Despite recent efforts by some cities to impose dress codes and send cabbies to "charm schools" the very structure of the industry now actually works against good service. In the 1970s most cab companies turned their employee-drivers into independent contractors to escape benefit costs. Cabbies now generally pay a flat fee to a cab company and pocket all the fares; no more ripping off the boss by running off the meter. In consequence, cab companies make their money not from fares but from leasing and selling cars and dispatch services to drivers. The result: The companies now consider the hacks their customers, not the riders.

The fact is that local governments' regulation of taxicabs has been incompetent, rigid and sometimes corrupt.

Fundamental improvement in basic cab service, then, depends on operators and politicians changing their ways—not the stuff of high hopes. Local cab companies, whose executives have considerable clout with their regulators, will have to accept competition. And city officials will have to do a lot more to transcend the Byzantine politics that misshape the taxi rules in cities like Chicago.

In 1962, for example, Mayor Richard Daley guaranteed the local Checker and Yellow cab companies (run respectively by Jerry Feldman and his son Jeffrey) an 80% share of any new cab permits. But the drivers, mostly black and other minorities, now have a sympathetic ear at City Hall. In January Mayor Sawyer got Yellow and Checker to agree to cut their share of cabs to 41% over ten years, with veteran drivers getting the newly available licenses. Though political alliances have shifted, that doesn't guarantee cleaner or safer cabs.

Fleet operators and medallion holders traditionally whine that if medallion systems and other artificial barriers to entry are dropped, service will deteriorate further as hordes of fare-gouging cabbies driving old wrecks prey on the public. But that's nonsense. The rise of black cars and other alternative services shows that rigid systems are an anachronism.

There is a case, though, for intelligent regulation. The simplest

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"There are things today that I still don't understand about this business"

Joseph Chernow, 48, is a brash Brooklyn-born C.P.A. who lavishes money on his 37-foot sailboat and dreams of taking his Texas company public and expanding nationwide. The twist? It's a taxi company.

In 1982 Chernow shocked his accounting firm partners by quitting to become president of Yellow Cab of Houston. In 1985 he led a $17 million buyout of Yellow. Since that year Chernow's Yellow Cab Services Co. has acquired cab companies in Colorado Springs and Charlotte, N.C., started a new 137-car fleet in Austin and launched two Houston specialty cab companies, one a luxury sedan service. In all, it now operates about 1,250 cabs. Chernow estimates 1988 revenues at $31 million, representing about $75 million in cab fares.

Will van Overbeek

Taxi executive Joseph Chernow
Breaking the language barrier.

His dream of a national, publicly held taxi company, however, may collide head-on with reality. There are no publicly traded cab chains today. Some cab operators believe that regulators are too parochial and the taxi business too quirky and management-intensive for a national chain. Admits Chernow: "I came here in 1982 loaded for bear. But there are things today that I still don't understand about this business."

Last year, with an eye toward a public offering, Chernow projected that in three to five years he could build a $75 million to $100 million (revenues) company with pretax margins of 10% to 15% by operating fleets in six to eight cities and selling services to cab operators elsewhere. The Houston economy and the stock market wrecked that timetable. Yellow is now marginally in the black, but both the public offering and that national expansion are a year or more away.

Meanwhile, Chernow is developing home markets. He had tried without much success to recruit bilingual Houston drivers when a Hispanic councilman urged him to get a Hispanic partner. Chernow cut a deal with one of the councilman's protégés. State Representative Roman Martinez, 29, put up $51,000 for 51% of the Fiesta Cab Co. Inc. Yellow got 49% and a management contract. *Voilà*. Houston's council approved 25 new permits for Fiesta, which has grown to 75 cabs by serving customers who had shunned taxis because of language problems.

Even with such innovations, though, Yellow has not wiped out the competition. United Cab Co., started from scratch in 1978 by a Yellow driver, now has 199 cabs dispatched from the offices of a former mortuary. President Dixie Houston runs the company with a firm hand and the help of two sons drafted into the business when her late husband became ill. Chernow gets daily computer printouts showing his calls; at United the old trip sheets sit in bundles in a precarious tower of boxes.

But United cabs take credit cards; the Yellows don't. And with its smaller size, United can keep honest drivers happy by controlling "trip stealing"—whereby one driver rushes to pick up a fare the dispatcher has given someone else.

Chernow's answer? He's ordered a $3.2 million computer dispatch system that sends a customer's address only to the nearby cabbie who's been waiting the longest. That investment, he says, will produce a bonus.

A similar system in Austin, Chernow says, reduced accidents 50%. A lot of cabbies, it turns out, were crashing their cars in their race against one another for fares.—J.N.

scheme: Use safety and quality controls to define the terms of entry, if not limit it, and protect the public. Cities could simply require newer, roomier, air-conditioned cars, adequate insurance and more frequent safety inspections. Gorman Gilbert, a widely respected taxicab expert who just stepped down as New York's taxi czar (to join SuperShuttle), says New York should ideally eliminate medallions and control the number of cabs on its streets by requiring drivers to pass an intensive city geography course—a less rigorous version of London's overdone hack training.

Other sensible ideas: Require that cabs affiliate with a radio base, be painted a distinctive color and register rates in advance so consumers can choose. Sure, this would increase the capital needed to enter the business, but new companies that have a better product shouldn't be deterred.

Experience is building in the difficult matter of deregulating fares. Cities such as Seattle and Phoenix, which totally deregulated entry and fares in 1979 and 1982, respectively, found that price caps are needed at local airports, where arrivals from out-of-town are easy marks for unscrupulous drivers. But in most cities, most fares come from phone orders. Riders, after a while, learn to cope. To a degree that would surprise only uncaring bureaucrats, the market works.

When fares were deregulated in Phoenix, dominant Yellow Cab raised rates from 85 cents to $1.20 a mile. Today, Yellow still charges $1.20 a mile. And consumers' choices include Discount Cab at 90 cents a mile or black Lincoln "V.I.P." cars at $1.50 a mile. "You have to shop around and I don't mind that," says Phoenix waiter Edward Villarreal, who rode Discount until he discovered a cheaper company. Discount is fighting back with 10% discount coupons.

Listen to Jerry Johnson, owner of Seattle's Yellow Cab company. He ran about 65 cabs when Seattle threw open the business. Johnson didn't raise fares. It took a few years, but he began to gain market share and now dispatches a fleet of 220 owner-operated taxis. Yellow charges $1.20 a mile, and negotiates corporate rates of as low as 90 cents a mile, compared with a legal ceiling of $1.40. Says Johnson: "I was 100% wrong in opposing deregulation."

There is plenty of opportunity here. Whether the cab operators make the most of it depends on whether they and their regulators discard the calcified regulatory regimes they now cling to. ■

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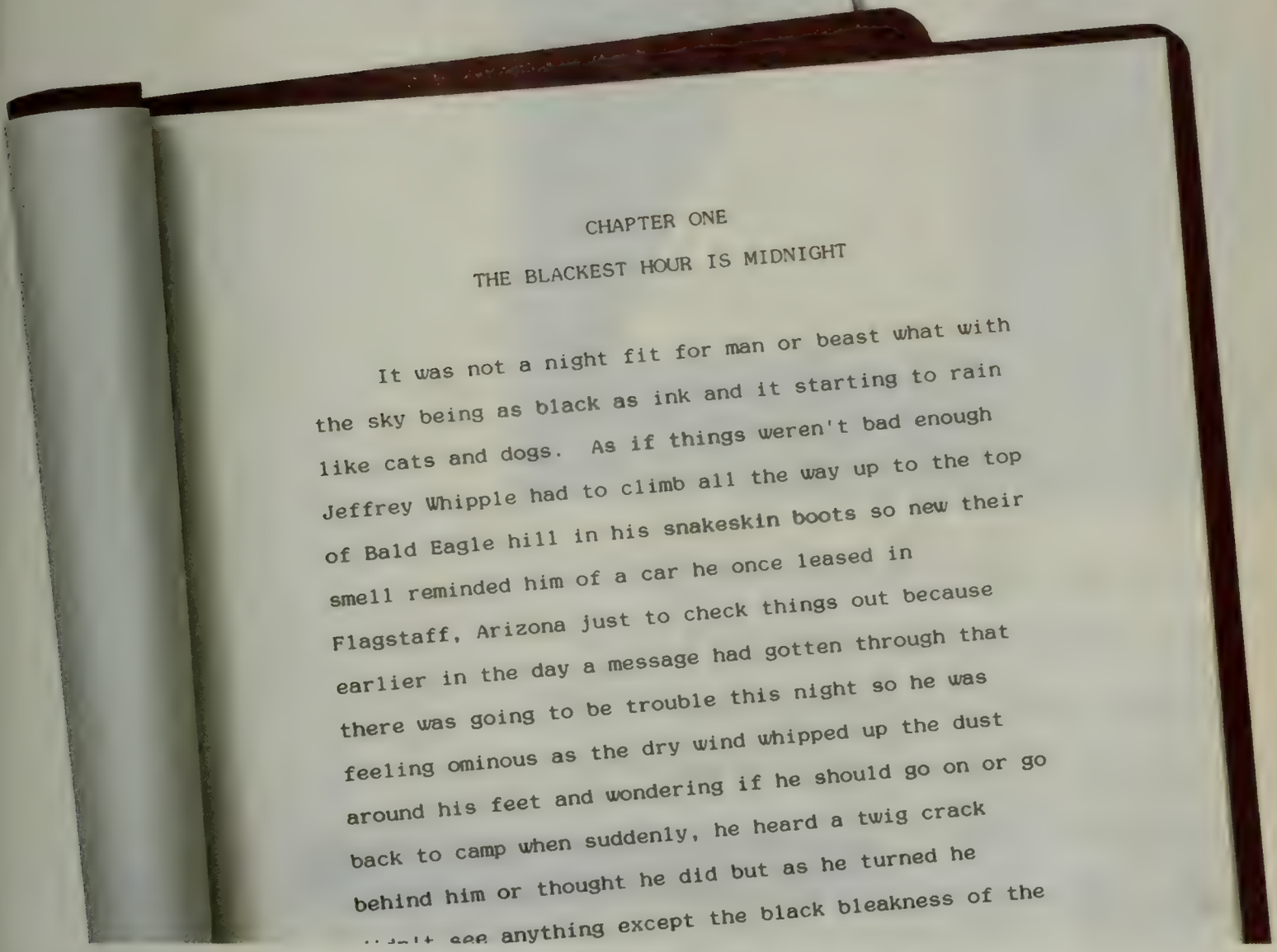

CHAPTER ONE

THE BLACKEST HOUR IS MIDNIGHT

It was not a night fit for man or beast what with the sky being as black as ink and it starting to rain like cats and dogs. As if things weren't bad enough Jeffrey Whipple had to climb all the way up to the top of Bald Eagle hill in his snakeskin boots so new their smell reminded him of a car he once leased in Flagstaff, Arizona just to check things out because earlier in the day a message had gotten through that there was going to be trouble this night so he was feeling ominous as the dry wind whipped up the dust around his feet and wondering if he should go on or go back to camp when suddenly, he heard a twig crack behind him or thought he did but as he turned he ..dn't see anything except the black bleakness of the

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His objective? The "Indestructible Paint Job."

Dr. Dirt discovers hungry water.

In the years since, he's pursued this goal with uncommon zeal; sleeps with a beeper, for example, in case the nightshift needs help dealing with an imperfection.

(His wife, Robin, says she can't get him to take a vacation that takes him outside beeper range, and he doesn't deny it.)

Recently, Dr. Dirt made a discovery that might have gotten him at least a Nobel prize nomination if his specialty were more, ah, exalted.

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Nearly everyone's a contrarian these days, but contrarian to what? Here's a California money management outfit that has the answer all psyched out.

Outpsyching the market

By Laurel Sorenson

THE LOOK OF THE place is plush corporate modern—intricate Oriental rugs and an art gallery interior of splashy acrylics, metal sculpture and Southeast Asian temple jars. But the work done at San Mateo's Concord Capital Management is pure California. The people at Concord—with about $2 billion under management from 29 clients such as Merck & Co. and the Rockefeller Foundation—are less interested in things like earnings and assets than they are in how other people experience a stock. That's because they want to profit from the blind spots and biases of other investors.

"We ask our people to think differently," says Harold Arbit, Concord's president and founder. Their analysts get plenty of help: They are encouraged to relax, the better to sense the flow. Long vacations are encouraged; staff members come and go as they choose. Reading material includes periodicals like the *Journal of Experimental Psychology, Memory & Cognition* and the *Humanist*.

Does it work? Seems to work pretty well. In the five years ended Dec. 31, Concord's annualized return on investment has been 19.5%, against the market's 16.4%. Over the three-year period ended Mar. 31, Concord's performance ranked 20th of 249 investment houses tracked by CDA Investment Technologies.

How do you psych the market? The Concord view is that you identify the psychological blinders that make

Gerry Gropp

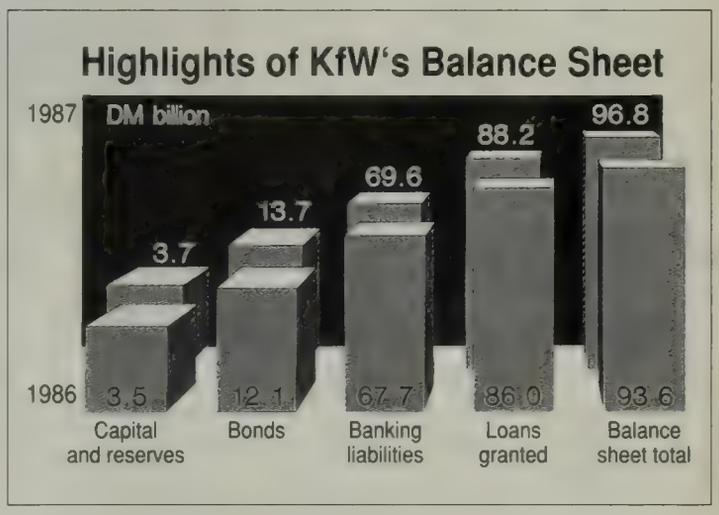
Harold Arbit (third from right) and his creative thinkers
"Focus on the abnormal. Look for what's wrong."

PFC, FFM

KfW 1987
Well Prepared for further Growth

In 1987 KfW succeeded once more in reaching its goal for the year and at the same time strengthened its potential for future development. Domestic investment loans were concentrated in two areas: small and medium-sized enterprises (DM 5.0 billion) and environmental protection (DM 2.1 billion). German exporters benefited from total credits of DM 3.2 billion. Development assistance funds appropriated by the Federal Government (DM 2.7 billion) were mainly used to finance projects in Africa and Asia, including for the first time structural aid to improve the macro-economic framework.

In the coming years KfW will see a considerable increase in domestic investment loans – not least as a result of the DM 21 billion financial programme for local authorities and small and medium-sized enterprises launched recently by the Federal Government.



A copy of KfW's 1987 Annual Report is available upon request.

KfW Kreditanstalt für Wiederaufbau

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most investors and most analysts overlook value, then go contrary to those biases and blinders. For example? Take one investment theme, accounting for 20% of its stock portfolio, that Concord calls "heuristic biases." This sounds like California psychobabble, but it represents a very important insight into the way investors misjudge the market. Heuristics is the art of reasoning by rules of thumb. If investors were coolly rational, they would arrive at generalities (say, whether new issues are good investments) by averaging past results of many examples. This is the way scientists reason. But investors aren't scientists—even the best of them. Instead, they make assumptions about companies and take mental shortcuts that can produce systematically biased forecasts and investments. Their view of new issues, for example, may be colored by memories of outstanding winners (like Cray Research), even though the average performance of new issues is pretty terrible (FORBES, *June 27*).

One such heuristic bias, Concord believes, is the notion that movie and toy companies that don't have a current hit in the marketplace will never have another hit. A couple of bad seasons and the outfit is considered a loser. In fact, Concord says, any well-managed movie- or toymaker is as likely as any other to produce a blockbuster product. "So we buy the [current] dogs of the industry, and we expect that sometime over the next three years they'll have a hit," says Abbott Keller, a Concord vice president. Among Concord's holdings under this theme are Mattel, Hasbro, MCA and Columbia Pictures Entertainment.

Although Concord's institutional clients don't want it shorting stocks, there is an obvious flip side to this strategy that individual investors could consider: Short the stocks of toy and movie companies that are trading at high prices on the strength of just one hit. Worlds of Wonder, now in bankruptcy, might have been a sell when its Teddy Ruxpin talking bear was a hit two years ago (FORBES, *June 30, 1986*).

If Concord is a blend of the artistic with the practical, it's because of Harold Arbit, 41. An avid collector and history buff, Arbit is renovating his Tudor home using such unusual items as medieval stained glass and 17th-century wood paneling. He studied sculpture and painting for several years before eventually earning a Wharton M.B.A. in 1971. He rose through the ranks at a Chicago bank to become chief investment officer, but somehow he didn't fit into the button-down mentality there. "I asked people for insights, and they'd say, 'Interest rates are going up,' " he says. "Analysts are action junkies. They need to know they're making money, and making it now."

Arbit reasoned that this kind of compulsion toward constant action would almost certainly lead to mistakes, not only because of its narrow focus on short-term results, but also because most investment analysts use universally available information for their recommendations. Because they process that information more quickly than most people, they believe they have an edge; in reality, though, their use of readily available information means they gain no true advantage over other folks. They may buy a bit earlier, but they buy the same stocks other people do. Arbit's aim is to understand investment managers as much as investments. Spot their usual errors and biases, and invest against them. "To beat the market, you have to see something the market doesn't," says Arbit. "What you see has to be creative."

Concord founder Harold Arbit
"We ask our people to think differently."

Concord's current portfolio is invested along five such psychological themes. They are: heuristic biases, flat tax, minimal expectations, R&D myopia and restructuring. Example: Nearly every investor is on the prowl for companies about to restructure. So is Concord, but Concord throws in a psychological criterion along with the usual financial ones. It has found companies that restructure once are likely to do so again. In studies of 557 companies that restructured between 1963 and 1985, Concord found that an unusually high number (47%) got the itch for another round of restructuring within four years. During that time, the restructured companies beat the S&P by 6 points a year. Why isn't the market perceiving this source of enhanced return? Perhaps there is an unconscious assumption that once the first restructuring is over, the play is over. Concord also believes that most analysts miss such opportunities because they tend to look at trends within industry groupings instead of across industry lines. Current holdings among 42 stocks in the restructuring theme include FMC, TW Services and Sara Lee.

Then there's R&D myopia, a theory that plays on current investor preoccupation with takeover candidates. Concord has concluded that tax reform, insider-trading investigations and state antitakeover legislation will, over time, cause investors to shift money away from companies that appear ripe for takeover and into stocks that have benefited the least from leveraged-buyout fever; e.g., research stocks. So Concord has 23% of its portfolio in such holdings as Advanced Micro Devices, Compaq Computer and Wyse Technology.

Out of the 11 themes Concord has used since its founding in 1981, 2 have flopped. One theorized that investors avoid stocks in sagging, heavily competitive industries, such as railroads, trucking and even polyvinyl chloride manufacturing. The other called for loading up on stocks that most money managers were presumably shunning because of the companies' propensity for taking unconventional, entrepreneurial risks. Concord ditched these themes when they underperformed the S&P for too long and showed no signs of reviving.

Arbit's confederates in this somewhat contrarian enterprise include Abbott Keller, 36, who bought his first share of stock when he was 9 years old; Michael Nichols, 44, a former management consultant who prepared for money management on a two-year retreat to a Colorado mountain cabin; and Richard Spencer, 35, a former accountant and psychiatric researcher. The staff also includes a former venture capitalist, a banker, a financial research director and a computer expert.

Can ordinary investors play the psycho-contrarian game? Yes, says Arbit, if they work hard to think in opposition to conventional wisdom. For instance, suppose Boeing stock drops because of media reports about accidents with its older planes. A more creative thinker might interpret the news differently and conclude that it will mean faster replacement of aging fleets. "Focus on the abnormal," says Arbit. "Look for what's wrong. Look for what could change. That's how to make money." ■

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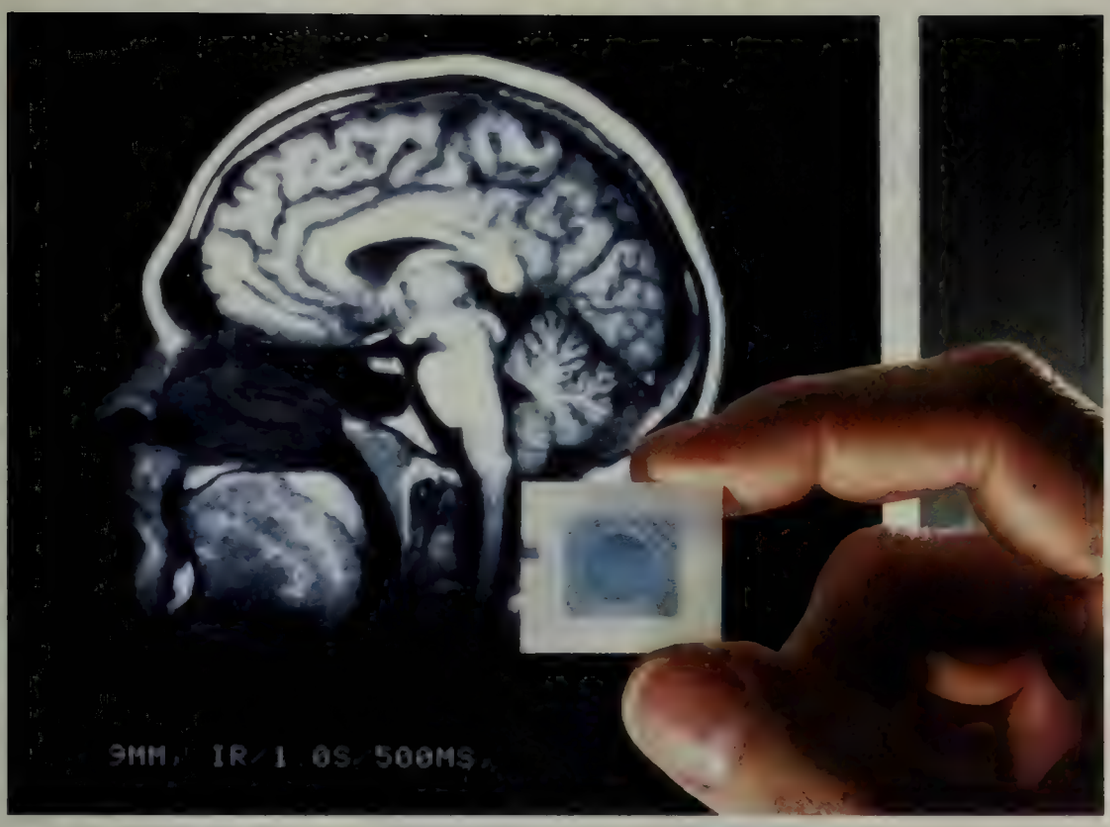

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Hamburger tycoon Carl Karcher loves his relatives. All too well, says the SEC.

Family ties

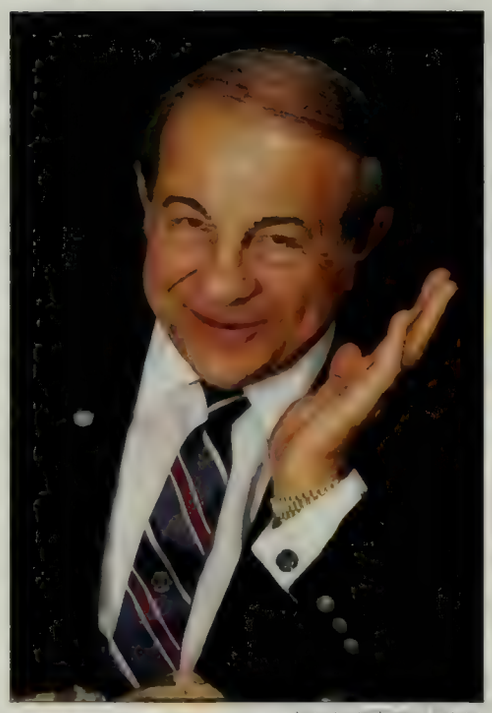
By Ellen Paris

CARL KARCHER, 71, is founder and chairman of $370 million (fiscal 1988 revenues) Carl Karcher Enterprises, Inc., which owns or franchises almost 450 Carl's Jr. fast-food outlets in three western states—California, Nevada and Arizona. Karcher, conservative even by the conservative standards of Orange County, Calif., is a regular churchgoer and a dedicated family man.

Too dedicated, says the Securities & Exchange Commission. In mid-April the SEC filed a 27-page civil complaint against Karcher for allegedly tipping members of his family 3½ years ago to forthcoming news of a steep drop in his Anaheim-based company's earnings. Of the 16 people cited in the complaint for securities law violations, nearly all are related to Karcher by blood or marriage. Included are his wife, Margaret, and 5 of Karcher's 12 children, including son Jerome, an assistant pastor at an Orange County church.

Also cited is Karcher's brother Donald, 61, the president of the company, his wife, their daughter and her husband. Karcher, Donald and their spouses were cited for passing information to their relatives, not for selling stock. The rest allegedly used this information and unloaded stock before news of the bad earnings was made public.

To build the case against Karcher, Irving Einhorn, the SEC's Los Angeles regional office administrator, spent nearly three years analyzing the Karchers' stock and telephone records. "I have not lost a case in my four years here, and I don't expect this to be my first," says Einhorn. If found to have committed the violations, the Karcher clan could wind up paying nearly $2 million in penalties and avoided losses. They also could face possible criminal charges brought by the U.S. Attorney in Los Angeles.



Founder Carl Karcher
All a coincidence?

The case began in late 1984 when the National Association of Securities Dealers market surveillance computer system noticed an unusually high volume of Karcher stock trading. The NASD notified the SEC. On Oct. 16 or 17, the SEC contends, Carl Karcher learned that third-quarter earnings were going to be down sharply from the year before, largely because of expansion and the cost of adding new items to the Carl's Jr. menu. When the news was made public almost a week later, on Oct. 23, the company's stock dropped from 21½ to a low of 16½, closing the day at 17¼. (It later collapsed to around 9.)

Before that, however, Karcher family members dumped stock. According to the SEC, on Oct. 17 two of Carl's daughters, Margaret and Catherine, and Catherine's husband sold a total of 10,000 shares. Two days later Margaret, who at the time was living with her mother and father, sold another 8,000 shares. On Oct. 22 Donald Karcher's brother-in-law William Burns, who worked for a computer software and engineering firm in Ohio, sold about 1,400 shares he and his wife and children owned. He also sold 500 shares short.

The Karchers' lawyers suggest it was all a coincidence. "The trades," maintains Arthur Sherwood, a Los Angeles attorney representing Carl Karcher and his wife, "were all independent and made for perfectly reasonable and understandable reasons." In a press release following the announcement of the SEC's complaint, Karcher declared: "These charges are totally false. My wife and I did not sell any of our stock nor did we tell anyone else to do so."

The courts will decide who is right, but, in the meantime, Karcher—"Mr. Orange County," as he is known locally—has had his reputation seriously besmirched. Karcher is a big community booster and large contributor to local charities. His Horatio Alger-style success story is Orange County legend. Of German descent, Karcher was raised on a farm in Ohio. He moved to Anaheim in the Thirties, eventually buying a hot dog stand across the street from a Goodyear plant in Los Angeles. He built Carl Karcher Enterprises through hard work and a shrewd sense for changing markets and consumers' tastes.

In recent years his company's earnings were depressed by severe competition and a disastrous expansion into the Texas market. Of late, however, Karcher has refocused on southern California, spiffed up existing restaurants and brought out new menu items, including chicken and steak sandwiches. The stock sold recently for 19, well up from its 1984 low of 9.

At a conservative guess, the Karcher family is worth close to $100 million. If the SEC charges are proved, the family collectively avoided losses of over $310,000 by acting on inside information. That's small potatoes for the Karchers. Why would people that wealthy violate the law for so minor an amount? The Karchers are pressing for an early trial by jury. If it comes, the trial will be more interesting for the light it sheds on human nature than for breaking legal ground. ■

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Rolltop desks and partners who come to work by subway—that's Brown Brothers Harriman & Co., a once powerful Wall Street firm that has grown timid and drowsy.

Living in the past

By Edwin A. Finn Jr. and Jack Willoughby

EVERY THURSDAY morning the multimillionaire partners of Brown Brothers Harriman & Co. climb out of New York City's grimy subways and enter their offices at 59 Wall St. Rich bankers riding subways? That's the way it is in the noblesse oblige world of this venerable investment firm, which likes to pretend that Manhattan is still what Manhattan once was, a town where subways were safe and comfortable. Besides, chauffeur-driven limousines are a vulgar bit of ostentation.

Once out of New York's dirty, noisy subways, the partners enter the upper reaches of the world of Dickens—rolltop desks, rich wood paneling, century-old portraits of the firm's founders. The footman closes the padded leather doors to the partners' room at 9:30 sharp. Meeting now in solemn conclave are the men who run America's most prestigious private bank.

Not for these worthies are such vulgar pursuits as leveraged buyouts, hostile takeovers or junk bonds. No stable of mutual funds, no venture capital. Leave those to Wall Street's Johnny-come-latelies. For Brown Brothers lives stubbornly in the world of yesteryear.

This, in spite of the fact that Brown Brothers has had an exceptional advantage. As a partnership it was able to emerge from the 1930s Glass-Steagall Act as both a commercial bank that takes deposits and makes loans and an investment house.

Why should anyone care if an old, privately owned institution grows musty? Because Brown Brothers' decline is a warning to others who cling to the past in an era of painful but lucrative change.

The past Brown Brothers clings to was glorious. It had its beginnings in the cotton trade more than a century ago, in the days when America was still heavily dependent on commerce with Britain. Back then, when Wall Street was little more than an alley, the nation's first foreign exchange rates—known as Brown's rates—were posted daily for the public to see on a pillar inside the banking house.

Brown Brothers partners were men who learned to think globally decades before it was fashionable. In the early decades of this century, partners made steamer journeys to war-ravaged Europe, cementing relationships with hundreds of elite private banks—from Sweden's Bank Enskilda to Switzerland's revered Pictet. These ties enabled Brown Brothers to pioneer bankers' acceptances, which are used to finance international trade, as well as traveler's letters of credit, precursors to traveler's checks. Woodrow Wilson used a Brown Brothers letter to cover personal expenses at the Versailles Peace Conference in 1919.

Those were the days when discretion, not publicity or celebrity, was the watchword. It is still that way at Brown Brothers. Its aura of secrecy rivals Yale's Skull and Bones—one of the secret societies to which many of the firm's partners once pledged. In its glory, as in its present decline, the firm did its business behind closed doors. So it's no surprise that the partners refused to talk to FORBES. But by wading through reams of documents and interview-

Inside, the musty feel of Dickens

Partners' room at 59 Wall St.
Snoozing under the founders' gaze?

ing dozens of competitors, customers and high-level former employees, a realistic portrait of Brown Brothers emerges for the first time ever.

The portrait is a strange one. Brown Brothers is still immensely profitable for its 33 partners. The firm earned a record $59.6 million last year, a 65% return on capital. But it earned those profits chiefly from declining businesses. For its current partners, Brown Brothers is a cow that gives rich milk but bears no calves. Much of Brown Brothers' recent history involves missed opportunities. The firm could easily have been a Salomon, a Merrill, a Morgan Stanley. But its partners preferred to clip coupons.

As a result, it no longer attracts the best and the brightest. Fully one-third of the 33 partners are past 65. Its most distinguished partner, Robert Roosa, an international currency expert and an Under Secretary of the Treasury in the Kennedy Administration, is 70.

It must have been humiliating for the aging partners in March when Paul Volcker, the departing Fed chairman, turned aside the offer of a partnership from Roosa—the man who gave Volcker his first job at the New York Fed in 1949. Instead Volcker went with financier James Wolfensohn's upstart investment house.

Why did Volcker snub Brown Brothers? Apparently he wanted to keep a toehold in academe as a part-time professor at Princeton. The hidebound partners at Brown Brothers wouldn't bend the rules. Says longtime Brown Brothers partner Eugene Banks, "No partner has ever been allowed to hold two jobs." Says a Brown Brothers alumnus, appalled by this slavishness to tradition: "That place is being run by the clerks to the clerks of the great men."

A key partner in the firm until his death in 1984, Knight Woolley seems to have set the current sluggish tone. "Let's take it 'creepy crawly,' that's what he used to say," recalls a former Brown Brothers manager.

In recent years Brown Brothers has made one big departure from tradition. In 1983 it chose as managing partner a man who was no Skull and Bones Yalie. He is New York native Terrence M. Farley, 58, who earned a degree at City College of New York's Baruch School of Business. Unlike the scions of wealthy families who populated the partners' room in earlier generations, Farley started his career as a Brown Brothers bank teller and worked his way through night school, then on to the credit department, where he made his name as a crackerjack analyst.

People had great expectations for Farley. Soon after he took charge, two of the firm's sleepier partners were pushed out. But even street smarts weren't enough to shake Brown Brothers out of its stupor. In the past five years Farley himself has seemed to settle comfortably into the prosperous mediocrity that has characterized the firm since Roland Harriman retired in 1978.

This mediocrity shows for all to see in Brown Brothers' record in managing pension money. Almost 20 years ago Brown Brothers was one of the first companies to recognize that America's rapidly growing pension funds would create a whole new fiduciary industry. But quicker than you can say profit, there were hundreds of management firms in the fray, offering ever lower fees, and computers now regularly spit out SEC data comparing their results.

Amid this rough and tumble, Brown Brothers simply hasn't produced a record worthy of its reputation for long-range vision. For the five years leading up to 1982, the firm seemed gripped by a do-nothing attitude as its bond portfolio withered in the face of rising interest rates, producing a 2% net return, compared with 3.3% for the Shearson Lehman Corporate/Government Bond Index. Stocks were tough sledding, too, with Brown Brothers underperforming the Standard & Poor's 500 Index for both 1981 and 1982. By 1983 nine major pension fund clients—including Boeing, J.C. Penney, Texas Instruments and IBM—had dropped Brown Brothers as manager.

Since then the firm's performance has moved from lackluster to average, pretty much mirroring the market indexes. But at times Brown Brothers still suffers from its overly conservative approach. In this year's first quarter, for instance, the firm missed out on the rally in over-the-counter issues because of its traditional concentration on blue-chip stocks. Result: It dropped to 390th place out of the 450 firms that are ranked by CDA Investment Technologies.

Former Brown Brothers money managers complain about the firm's ossified structure. They say that while the firm's collegial way of making decisions seems a great way to reduce risk, it leads to a management-by-committee approach. "They don't give their portfolio managers a free hand to manage," complains one alumnus. "If I wanted to buy Apple

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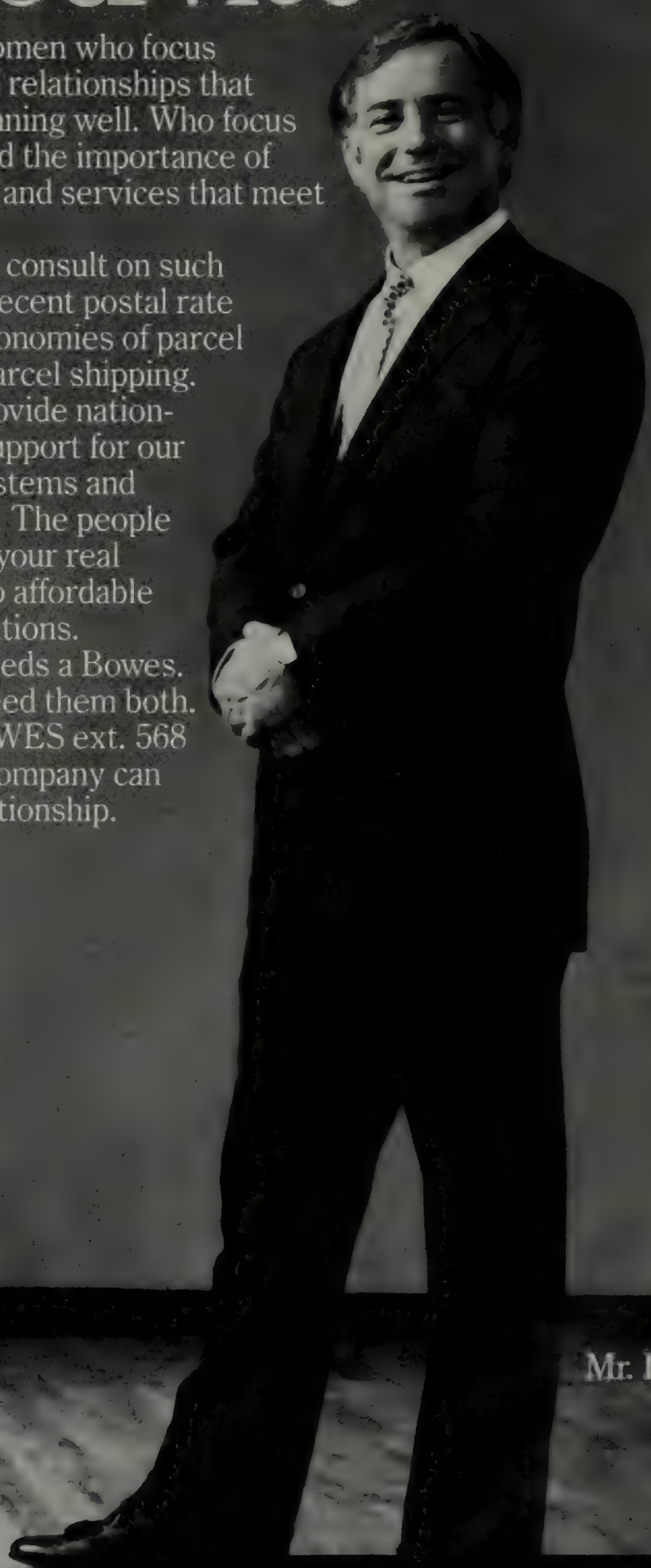

Mr. Bowes

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Innovators to caretakers

In his day, founder James Brown pioneered the international textile trade. But by 1930 Averell Harriman had to rescue the firm with his dad's railroad fortune, and did it with daring. He and fellow Yalie Robert Lovett made Brown Brothers a highflier. Under streetwise Terrence Farley and patrician Elbridge Gerry Jr., however, the firm has grown sleepy, dependent on capital from outsiders like John Macomber.

James Brown (1791–1877)

Computer and it wasn't on the approved list, I would have to get it approved by the investment committee. That could take a week."

Much of Brown Brothers' money management talent has walked, unwilling to wait the standard 15 years for a partnership. Especially disappointing was the mid-1970s departure of employees who left to form Fischer, Francis, Trees & Watts, one of the first to manage bonds actively. The firm now handles $10 billion of fixed-income funds, more than double Brown Brothers' bond portfolio.

Other Brown Brothers defectors: Richard Jenrette, chairman of Donaldson, Lufkin & Jenrette; Henry Gooss, head of investments at Manufacturers Hanover Trust; Patricia de Blank-Klink, head of Discount Corp.'s investment arm ($5.9 billion under management); as well as principals of Estabrook Capital Management ($750 million under management) and Hoguet Muzinich, Keller & Co., a firm started several years ago to manage money and arrange foreign takeovers of U.S. firms.

W. Averell Harriman (1891–1986)

The very snootiness that once gave Brown Brothers immense prestige no longer serves it well. In the last eight years the number of U.S. millionaires has more than doubled, to somewhere over 1 million, with most of the wealth being created by self-made men. Today's millionaires are far more likely to run a string of dry cleaners in Cleveland or an apparel business in New York than to come into the chips by inheriting an old steel fortune.

"Self-made millionaires are interested in service, not status," says Thomas Stanley, Georgia State University professor and author of the book *Marketing to the Affluent*, out last month from Dow Jones-Irwin. "Today's millionaires are likely to be put off by the members-only feel of a place like Brown Brothers."

This point has been grasped adroitly by Brown Brothers' competitors. U.S. Trust, for one, has launched an aggressive advertising and marketing campaign to reach out to new money, spurring its individual assets under management from $6.4 billion five years ago to $10 billion. Brown Brothers' individual assets under management, by contrast, lag far behind at around $2.7 billion. This at a time when private asset management has grown rapidly elsewhere.

True, the firm has established offices in Los Angeles and in Naples, Fla. to try to go where new money can be found. Yet partners have repeatedly rejected proposals to market their services aggressively to wealthy individuals. Advertising remains a dirty word at 59 Wall St.

Brown Brothers' biggest fumble has been in mergers and acquisitions. As foreigners were launching their $130 billion American acquisition spree back in 1979, Brown Brothers struck a promising deal, arranging a $380 million takeover of Fidelity Union Life Insurance Co. of Texas for the U.S. branch of Germany's Allianz insurance group. But there has been nary a deal since then.

Even as foreigners have been flocking to the U.S. in search of takeover targets, it appears that Brown Brothers arranged only seven takeovers for a measly $9 million in fees, according

Robert A. Lovett (1895–1986)

to Securities Data Co. Says Brown Brothers partner Eugene Banks, by way of apology, "We don't get into that junk bond stuff Mike Milken does." No, but that doesn't change the fact that, according to FORBES estimates, Milken's Drexel Burnham Lambert earned twice as much in six months of 1986 as Brown Brothers earned in five years.

Companies that have worked with Brown Brothers on deals say the firm performs with turtle-like slowness in a business that often demands lightning speed. One such instance is Multimedia, a communications concern (sales, $410 million) based in Greenville, S.C., where Brown Brothers represented the outside directors in their effort to repel a hostile takeover bid.

Says Robert Hamby, Multimedia's vice president and treasurer, "If I had something that was time-sensitive, I would have to think twice about hiring Brown Brothers. They were thorough but they seemed slow to our brokers, Goldman, Sachs. At times we were wondering if something was wrong or if they had done any of these things before."

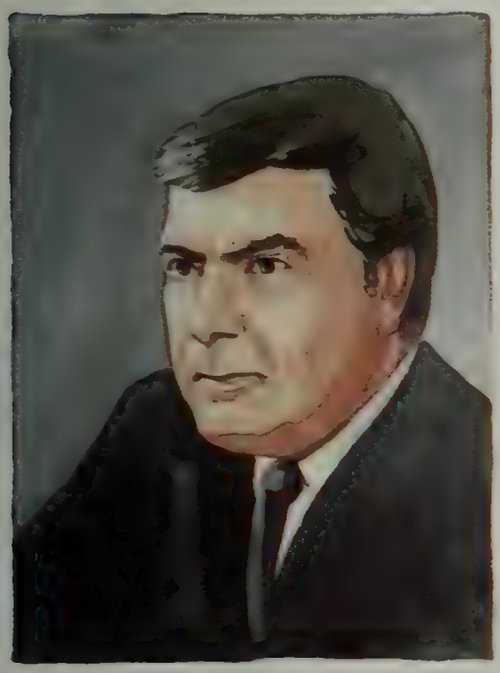
What a contrast to the wheeling and dealing of Roland and Averell Harri-

man, whose family money rescued the wheezing old firm in 1930. These men were operators, speculating in young businesses like radio and airlines. Says one former manager, "Brown Brothers in the 1930s was run by a bunch of kids who took a bankrupt franchise and exploited the hell out of it."

No question. The Harriman boys were highfliers. A prime example is their transformation of Dresser Industries, the oil rig and heavy equipment giant now based in Dallas. When the Harrimans bought Dresser in 1928, it was a fledgling maker of pipe couplings based in Bradford, Pa. They refinanced it and sold it off to investors, making some fat fees in the process.

In classic Harriman style, they set up the whole company but didn't have a president to run the place. As

Terrence M. Farley (1930–)



they were scratching their heads to come up with a suitable candidate, in walked their old Yale buddy Neil Mallon, fresh off an ocean liner and ready to regale them with tales of the hottest Paris nightspots. By the time 33-year-old Mallon left the Harrimans' offices that day, Dresser had a new president and he was it.

Brown Brothers rather reminds one of an old man attributing his wealth to virtue and hard work, when in fact he made his money taking chances and shaking things up.

Today Brown Brothers makes over half its profits by doing custodial work, keeping track of about $60 billion of stocks and bonds for institutions in Asia, Latin America, Europe and the States. The custody business per se makes only a few million dollars a year, but that is the tip of the iceberg. Unlike other commercial banks, Brown Brothers directly owns a seat on the New York Stock Exchange and so can broker stocks for its custody clients. That's the trick. Foreign custodial clients keep large cash balances on deposit at 59 Wall St. so they can buy and sell stocks quickly. And they get no interest. Financial statements obtained by FORBES show that as of Dec. 31 Brown Brothers held $671.5 million of such interest-free deposits.

FORBES estimates that Brown Brothers, by investing the bulk of these funds in municipal bonds, made at least $30 million last year, more than half the firm's 1987 earnings *(see chart, p. 72)*. Because municipals aren't taxable, that $30 million flowed largely tax-free into the partners' pockets. Last year the partners split $43.9 million, 74% of 1987 income, averaging $1.3 million a man.

Keeper of the keys at Brown Brothers' lucrative custodial operation is John Neilsen, who made partner 18 months ago at the age of 42. He has turned the custody department into a personal fiefdom, clearing out subordinates who might challenge his authority. A graduate of Columbia's business school, Neilsen is a corpo-

Elbridge T. Gerry Jr. (1933–)

rate infighter extraordinaire, known for spending 12-hour days stooped over his desk. His nickname: "the Ayatollah."

Attractive as it may seem, the custodial business is probably doomed. As automation proceeds and customers pay more attention to keeping their money working full time, profits are likely to shrink. The Japanese, British and Swiss are already doing more of their own custody work in New York. And with investors moving into more exotic stock markets, Brown Brothers has only four offices in foreign stock exchange cities, as against dozens for such well-heeled custodial competitors as Chase Manhattan Bank.

Moreover, as the Glass-Steagall Act erodes, competing banks will be able to match Brown Brothers' historic advantage: directly owning a seat on the New York Stock Exchange.

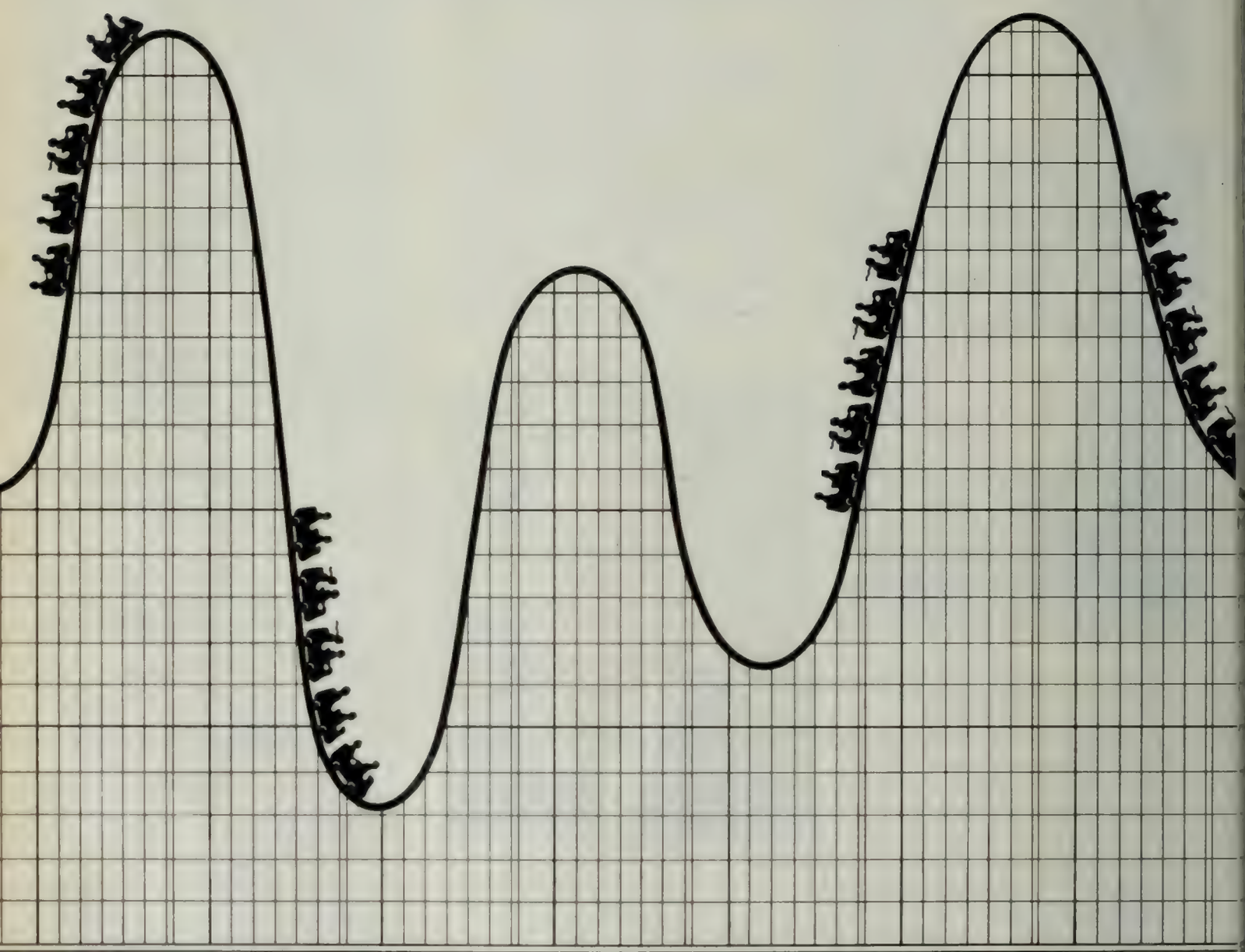
Even if Brown Brothers had the will to start competing in the brutal new world of Wall Street, it no longer has the wherewithal. By year after year taking profits out of the firm instead of plowing them back in, Brown Brothers partners have left a business that is small by current Wall Street standards. Its $91.9 million capital base is more than adequate for the $1.2 billion commercial bank that it nominally is, but scarcely big money. Citicorp's capital, for example, is $8.8 billion; Merrill Lynch's is $3.3 billion.

As older partners die or pull out, Brown Brothers has had to bring in new limited partners. One such arrival is John D. Macomber (Yale, class of '50), who kicked in $2.2 million. Macomber recently retired as chief executive officer of Celanese and, before that, was a longtime partner of McKinsey & Co. in Europe.

Another new limited partner, Ferdinand Colloredo-Mansfeld, who put in $2 million, looks great on paper: He's descended from a noble family of the Hapsburg empire, is married into a Boston Brahmin family, runs an old-line Boston real estate business, is a Groton trustee and is active in public service.

Why not turn Brown Brothers into a corporation to help solve the capital

John D. Macomber (1928–)



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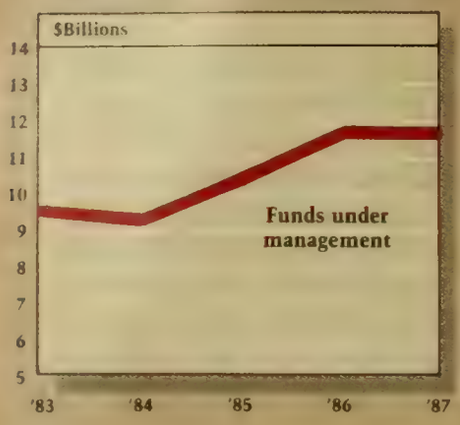
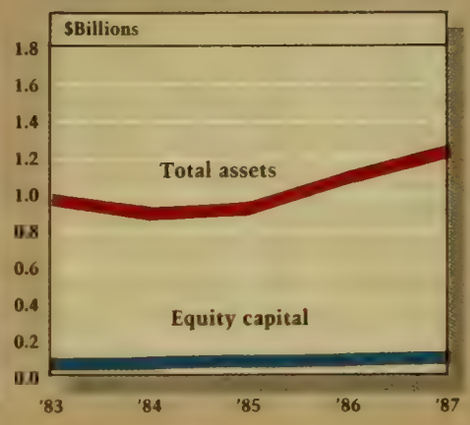
Through the keyhole

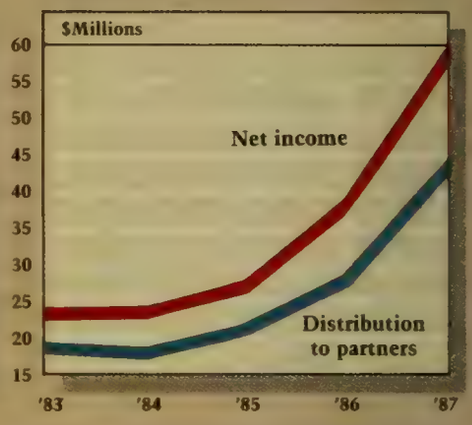
After years of sluggish growth, Brown Brothers' client funds under management stagnated at $11.7 billion. Blame mediocre performance.



Meanwhile, the bank's relatively small equity base leaves it ill-equipped to compete against giants like Citicorp and Merrill Lynch.



Rather than reinvest in their own future, Brown Brothers partners have been paying out about 80% of the bank's profits to themselves.



Sources: Brown Brothers; state banking records

problem? First, the partners would lose their lucrative tax benefits. Second, the firm's cherished mystique as one of the U.S.' few remaining private banking partnerships would vanish.

There's a story, perhaps apocryphal, but telling. A group at Brown Brothers was batting around an idea for a soft-sell public relations campaign: They wanted to send their clients an article about *The Wise Men*, the 1986 book lionizing Robert Lovett and Averell Harriman as well as diplomats Dean Acheson, John J. McCloy, George Kennan and Charles Bohlen. One manager piped up: "That's a nice idea, but how can we sell what we were 30 years ago?" The answer is you can't. ■

Atrophy

Though 105 years old, Brown Brothers was almost on its last legs in 1930 when Averell and Roland Harriman joined the firm, bringing fresh blood and new money. Their fortune was not old money; father Edward had fought his way up from modest circumstances, ending with control of the mighty Union Pacific railroad, which became his power base. But he was an outsider to the establishment, buying huge tracts of land for an estate north of New York City—now Harriman State Park—when snooty business folk denied him entry to their enclave at nearby Tuxedo Park.

Edward's lively and ambitious sons turned Brown Brothers into a brash and venturesome outfit. When the Great Depression paralyzed so much American wealth, the Harrimans kept their firm busy. Brown Brothers was badly damaged in the Credit Anstalt collapse of 1931, but, unflinchingly, the Harrimans pumped in more money. Averell Harriman, a dedicated skier even into his late 70s, defied the skeptics and built America's first ski resort, Sun Valley, Idaho, in 1936.

Nor did the revived firm confine its operations to Wall Street and ski resorts. In the following decades, Brown Brothers' public service record made the place seem like a shadow State Department.

Partner Robert Lovett helped run the Marshall Plan to reconstruct Western Europe after World War II, and in 1960 he advised President Kennedy on whom to pick as secretaries of Treasury, State and Defense. Averell Harriman, meanwhile, shed his onetime playboy image to become, first, a highly successful businessman and, later, a contender (in 1952 and 1956) for the presidency of the U.S.—on, of all places, the Democratic ticket. While still a partner at Brown Brothers, Harriman operated as a special envoy between Roosevelt and Churchill. He dealt directly with Joseph Stalin for FDR and served as ambassador to the Soviet Union, as well as being elected governor of New York.

Roland Harriman ran the Union Pacific Railroad for years from the Brown Brothers partners' room. Vice President George Bush's father, Prescott Bush, was a Brown Brothers Harriman partner before being elected U.S. senator from Connecticut in 1952; he was one of the few legislators who dared stand up to the bullying of Joseph McCarthy. Another partner, finance expert Robert Roosa, was instrumental in restructuring Texaco in the mid-1970s and in 1985 quietly helped American Express Chairman James D. Robinson III defend against Sanford Weill, an unwanted pretender to the AmEx throne. Roosa was cut from the same kind of cloth as the two Harrimans; he served as Under Secretary of the Treasury in the Kennedy Administration.

But Roosa, now 70, proved the last of the giants at the partnership. Averell became a limited partner when he left to pursue politics, and Roland died in 1978.

As the age of the giants fades, so does the firm's capital. The partnership capital of the Harriman brothers, whose estates totaled $156 million, is no longer in the firm. Most of the remaining big money partners are getting old. R.L. Ireland III, heir to the Hanna Mining fortune, is 68. Elbridge Gerry Sr., nephew of Averell and Roland and descended from a signer of the Declaration of Independence, is 79. The Gerry family's limited partnership capital is now $4 million, down from $6 million last year. A vestige of Wall Street's old order, Brown Brothers Harriman remains prosperous, but it is fading.—**J.W. and E.A.F.**

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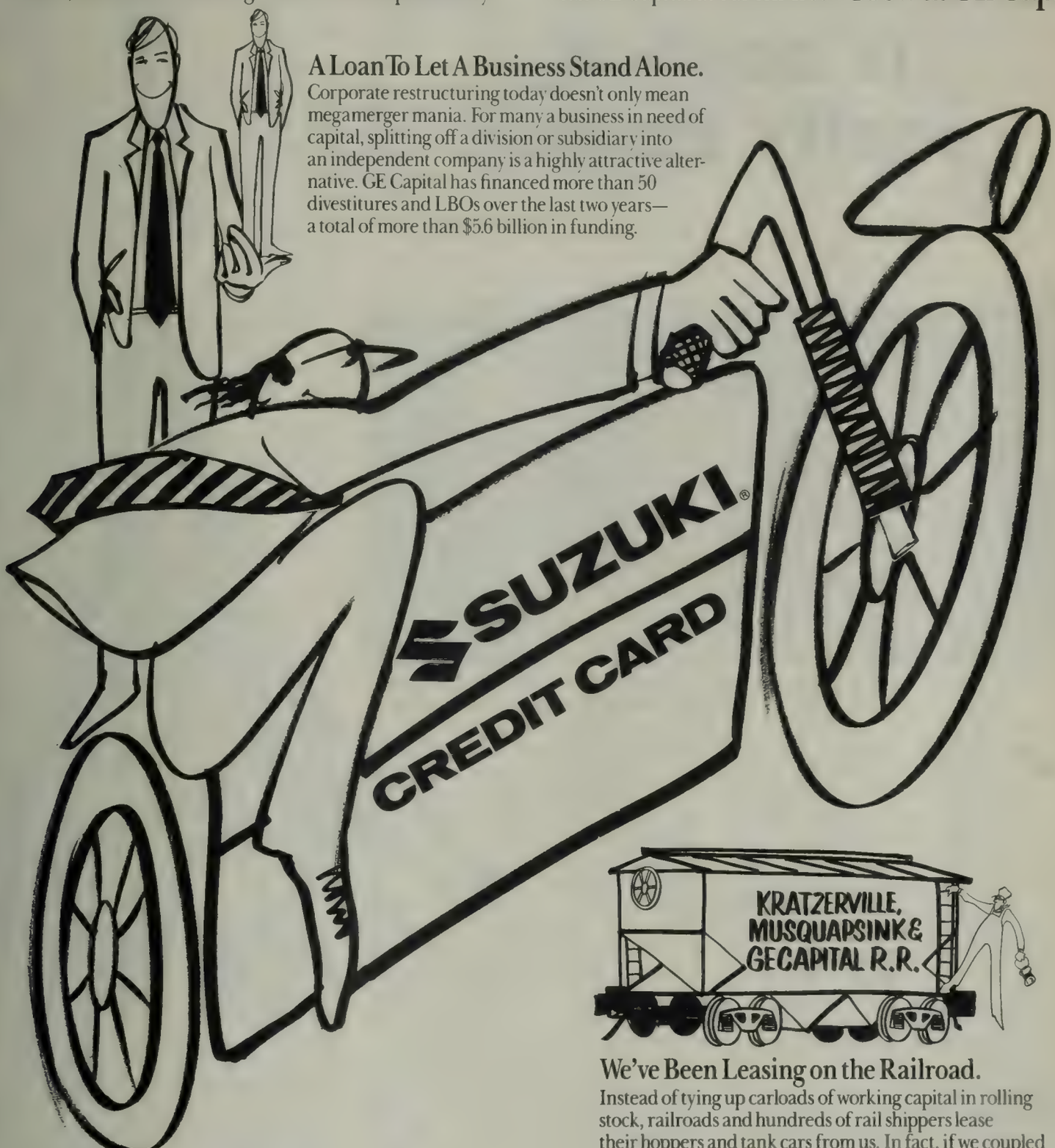

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Washington is using smoke and mirrors to hide the savings and loan problem. A serious crisis is being dealt with by hocus-pocus.

Is anybody really fooled?

By Howard Rudnitsky, Allan Sloan and John R. Hayes

ANYONE REMEMBER the classic scene from the 1939 movie *Beau Geste*? Brian Donlevy is in command of a unit of the French Foreign Legion in an isolated desert outpost besieged by vastly superior numbers. One by one, his men are picked off, but Donlevy doesn't want the enemy to see how weak his unit is. As fast as his men fall, he props their bodies against the parapets, rifles at the ready.

We don't know whether M. Danny Wall, chairman of the Federal Home Loan Bank Board, ever saw *Beau Geste*, but he is giving a passable imitation of Donlevy these days in dealing with the highly publicized savings and loan crisis. Wall is trying to convince people that the insolvent Federal Savings & Loan Insurance Corp. (FSLIC, known as Fizzlick) has the S&L problem under control. He's even propping up some dead S&Ls to make them appear alive. But look closely, and the deals may be about as effective as Donlevy's corpses.

Consider Wall's biggest transaction to date, the widely ballyhooed sale of four insolvent Texas thrifts with total assets of $4 billion to Southwest Savings of Dallas.

A neat solution? It may be no solution at all. Although Southwest is 90%-owned by a trust for the benefit of Caroline Rose Hunt, one of America's richest people, it is not all that healthy itself. Filings with the bank board show that Southwest lost $15.2 million last year, and that its capital at year-end was a paltry $4.8 million by Generally Accepted Accounting Principles. A minimum healthy level for an S&L Southwest's size would have been $42 million.

Worse, Southwest lost an indicated $9.2 million in the first quarter of this year. Factor in that loss, and you have an institution that would be GAAP-insolvent today had Hunt not converted $24 million of Southwest subordinated notes into stock as part of the Fizzlick deal. This didn't put more money into Southwest—Hunt just shuffled paper.

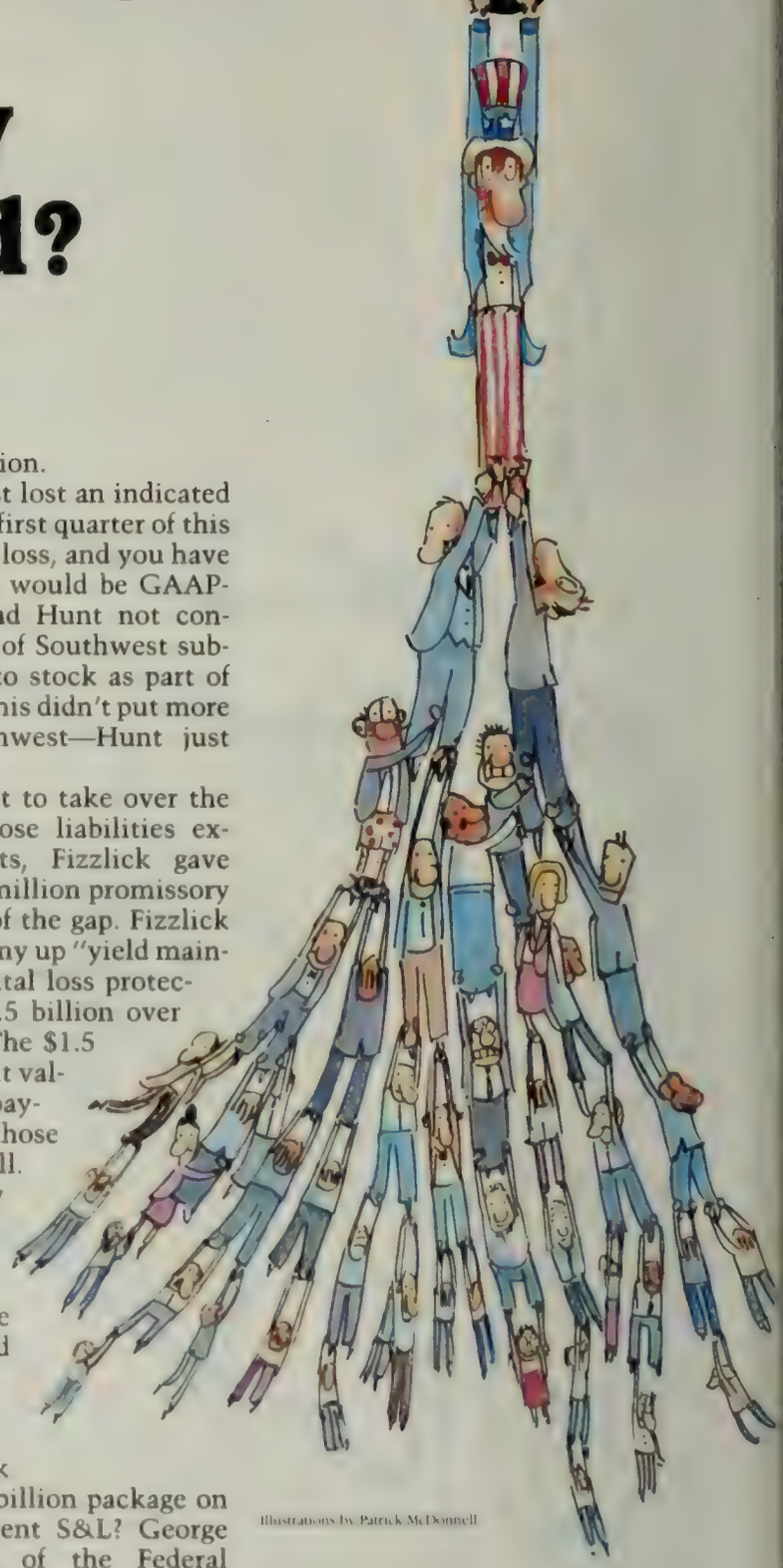
To get Southwest to take over the busted thrifts, whose liabilities exceeded their assets, Fizzlick gave Southwest a $483 million promissory note to close part of the gap. Fizzlick also promised to pony up "yield maintenance" and "capital loss protection" valued at $1.5 billion over the next decade. (The $1.5 billion is the present value of all those payments.) Prop up those corpses, Danny Wall.

Even this costly package may not cover Southwest's expenses of taking over the four thrifts—and certainly doesn't solve Southwest's own problems.

How can Fizzlick justify laying a $2 billion package on such a barely solvent S&L? George Barclay, president of the Federal Home Loan Bank of Dallas, explains: "In Texas, everything is relative. You can have well-run, well-managed institutions down here with negative net worth. . . . Even if you have 0% . . . capital, on a relative basis you may be okay."

Okay? Despite having a fine reputation and an excellent management team, Southwest has tons of repossessed real estate. Though there has been some improvement in the Texas economy, there are few signs of a major turnaround in the state's grossly overbuilt real estate market.

For Southwest's owner, Caroline Hunt, the Fizzlick transaction is a sweet deal—indeed, the only deal around. Fizzlick did make some de-



Illustrations by Patrick McDonnell

mands on her: It extracted the right to $54 million of Southwest's first $60 million of profits (if it ever makes them) and the right to buy half the S&L for a nominal sum. But what was Caroline Hunt giving away? Nothing. Absent the Fizzlick deal, both her stock and her notes were underwater by our analysis.

Danny Wall's explanation for making such a deal: No other credible buyer was in sight.

Look at the other FSLIC Texas deal, in which tiny Coastal Banc Savings Association of Houston, with $68 million of assets, assumed $470 million of assets from four busted Texas thrifts. Fizzlick is throwing $133 million of paper and $12 million in cash into the deal and getting 15% of Coastal.

What exactly is Coastal? A small shop acquired two years ago by an investor group led by Manuel Mehos, a former securities salesman for Goldman, Sachs & Co. Mehos and his associates spent "$2 million to $3 million" to buy Coastal, then a $10 million institution, and are raising another $3.3 million to keep Fizzlick happy. Coastal has real capital—but no experience in managing property. It concentrates on trading mortgage-backed securities and advising other institutions how to trade them.

Coastal, now responsible for handling maybe $250 million of distressed property, had less than $4 million of mortgages on its books at year-end. Managing troubled real estate isn't the same as calling up Salomon Brothers to trade Ginnie Maes or Freddie Macs. Mehos says he has hired property experts—human capital, as it were. Is it enough? Who knows?

So, there you have it: Danny Wall fighting off the enemy hordes. Pretending he has firepower when he has very little.

In *Beau Geste*, Brian Donlevy was hoping for reinforcements. Wall, too, talks of reinforcements: fresh capital for the Texas S&Ls. But where is the money? So far, notable by its absence.

The prospective survivors of the Texas S&Ls include H.R. (Bum) Bright (FORBES, *May 2*), whose Bright Banc is underwater; J. Livingston Kosberg, whose First Texas Financial Corp. owns two S&Ls with $9 billion of assets, which are insolvent by $380 million dollars by GAAP standards; Benjamin Franklin Savings, which has received regulatory forbearance from capital requirements through September 1993; United Savings, another insolvent shop whose parent company is controlled by corporate raider Charles Hurwitz.

What's wrong with Wall trying to whistle past the S&L graveyard, as his two immediate predecessors have done? Don't bureaucrats always try to pass problems on to their successors? Yes, but the longer the government puts off dealing with this problem, the worse it gets—and the higher the ultimate bill for the taxpayer.

An example of how delay has failed to help is in Texas itself. From the end of 1982—when the bloom was visibly off the Texas rose—until the end of 1986, Texas thrifts kept growing. When they should have been trimming back, they were bulling ahead. In those four troubled years, Texas-based thrifts almost tripled their assets, to $100 billion from $36 billion.

How could they attract a fresh $64 billion when most people already knew Texas was sick? Simple. They offered above-market interest rates, which depositors took happily, secure in the knowledge that FSLIC stood behind their money.

By the time the regulators finally clamped down on Texas, the sick S&Ls were such an overwhelming problem that Fizzlick couldn't begin to deal with it. Insolvent Texas S&Ls lost $6.2 billion last year, and one institution alone—Sunbelt Savings—lost $1.2 billion more in this year's first quarter.

Why didn't FSLIC nip the problem in the bud? A major reason was the influence of Texas politicians, among them House Speaker James Wright (D–Tex.). Wright bullied the bank board to keep it from closing S&Ls run by his constituents, some of whom raised funds for him. Clearly, Wright has more to answer for than merely peddling copies of a book.

Alas for the federal budget, Texas is only part of the problem. The U.S. General Accounting Office estimates that Fizzlick was at least $13.7 billion underwater at year-end, and that it will cost a minimum of $26.4 billion to close troubled thrifts. The GAO is conservative—other analysts' estimates range up to $75 billion.

Today's problems are an outgrowth of the late 1970s and early 1980s, when rising interest rates devastated the S&Ls, whose mission, assigned by Congress, was to use short-term deposits to make long-term, fixed-rate mortgage loans. Thus the S&Ls found themselves locked into investments that were paying less than the cost of carrying them.

The solution? S&Ls were set free by Congress and many states to seek their destiny in nonhousing investments. That freedom, combined with the removal of maximum interest levels that S&Ls could pay depositors, unwittingly unleashed a monster by allowing S&Ls to raise endless amounts of capital to fund disastrous (and sometimes venal) investments.

Contributing to the debacle was the decision by the Reagan Administration and Congress to keep the federal budget deficit down by reducing supervision of S&Ls. "I told them at OMB [the Office of Management & Budget] that deregulation meant we needed more supervision, not less," claims Edwin Gray, bank board chairman at the time. "They told me that the industry was deregulated and the market would police it. I told them that one day their decision would blow up in President Reagan's face."

A moneylosing steel mill or airline or magazine will sooner or later run out of money when nervous creditors and suppliers cut off its credit. Not so with a moneylosing S&L or bank. It can raise cash to cover losses and make new investments merely by jacking up the rates it offers depositors—in effect borrowing on Uncle Sam's credit in the form of federal

Barbara Kinney-Picture Group

Bank board members M. Danny Wall, Roger Martin, Lawrence White
Using the dying to prop up the dead?

deposit insurance. Thus, market forces alone can't put a troubled S&L to sleep. It takes regulators to do it.

Wall can't put the dead and dying to rest because he doesn't have the money. But he's acting as if Fizzlick can squeak by without tapping the Treasury. Man those ramparts, Dan.

In May, Wall presented a Senate committee with a cash flow projection that seems to be little more than wishful thinking. Among the questionable assumptions is that fixing busted S&Ls will cost only $26.3 billion over the next 10 years—just above the low end of the General Accounting Office's estimate. Wall also assumed that $14.4 billion of the outlay would consist of Fizzlick paper—on top of the $10.825 billion borrowing Congress has authorized.

Wall conceded to FORBES that Fizzlick's congressionally authorized borrowing program (which he calls a "recapitalization") was never designed to be enough to solve the industry's problems. "We will not say it's absolutely enough," he says. "The President didn't. Congress didn't." Devising permanent solutions, he said, will be the problem of the next administration and the next Congress. Which is, unfortunately, exactly the point: The underlying crisis is getting worse, not better.

"Five years ago, you could have fixed the S&L industry's problems for $10 billion or $15 billion, but Fizzlick didn't have that kind of money," observes William Isaac, who headed the Federal Deposit Insurance Corp. from 1982–85. Isaac, whose fund was much healthier than Fizzlick's at the time, closed troubled savings banks without mercy, while Fizzlick let sick S&Ls stay alive and grow.

By putting off the S&L problem, says Isaac, now chairman of the Secura Group, a Washington-based consulting company, "an interest-rate-spread problem was allowed to become a credit quality problem." What he is saying is that an infection was allowed to develop into gangrene. Says Isaac: "Now that there's $15 billion to spend to fix the problem, it's at least a $40 billion problem. It went up $4 billion in the fourth quarter [of 1987] alone."

A classic illustration of the cost of delay is $30 billion (assets) Financial Corp. of America. Instead of closing it years ago, the regulators let it stay open to avoid spending hundreds of millions of dollars they didn't have. Now, with Fincorp formally insolvent, the cost will be in the billions.

Meanwhile, seeds of future trouble are sown. In a move that shocked the industry, Wall settled a bitter dispute with American Continental Corp., which owns Lincoln Savings of Irvine, Calif., by allowing Lincoln to be audited by Washington instead of by the Federal Home Loan Bank of San Francisco. Lincoln uses aggressive accounting, owns $800 million in real estate, more than $1 billion in junk bonds and clearly needs to be carefully monitored. ACC's victory can only encourage other highly speculative S&Ls to resist being reined in.

What to do? Face the music and pay the bill. Then reform the system.

Some well-meaning professors have proposed basing deposit insurance premiums on the riskiness of an institution's portfolio of assets. A nice idea, but it won't work. Who, for example, defines risk? And how do you deal with the fact that what is safe today may be risky tomorrow?

Another proposal is to merge Fizzlick with the FDIC, which today looks rock-solid compared with Fizzlick. This might delay the day of reckoning, but it might also drag down the FDIC, which some day will have to deal with Third World loans and other bank follies.

Reid Nagle, president of SNL Securities, a Hoboken, N.J. firm that concentrates on the S&L industry, has some ideas that are worth listening to. Nagle thinks the way to keep the S&L problem from compounding further is to grit our teeth, appropriate the necessary billions while the next president is still in his honeymoon period, and solve the problem once and for all by closing hundreds of S&Ls and merging others.

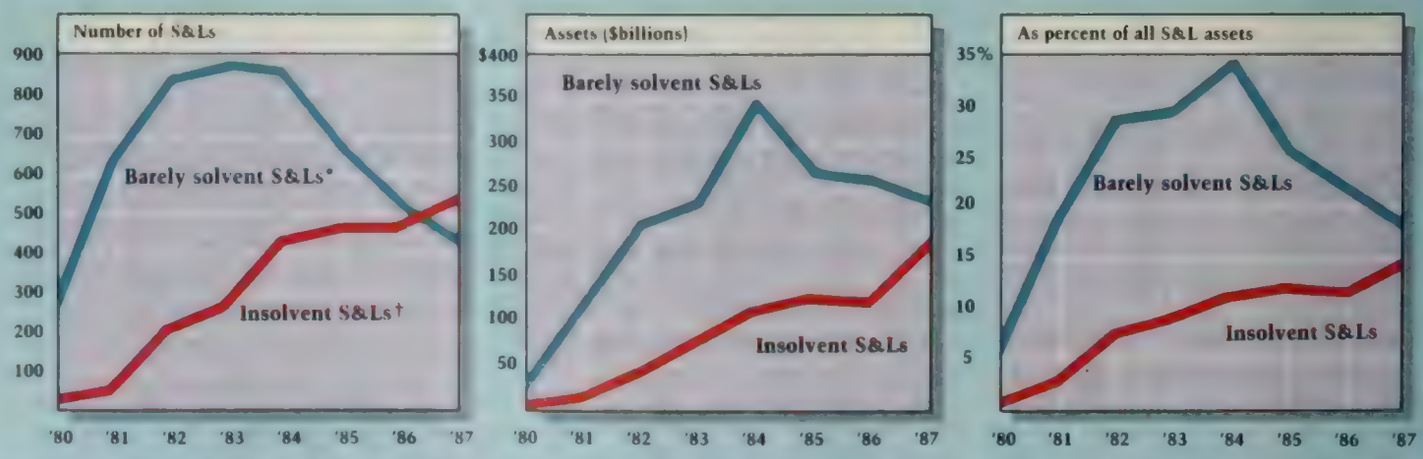
In return for the bailout, S&Ls would have to accept tough new standards. The freewheeling days would end. S&Ls would be required to have a much higher level of equity capital, say 10% of assets. This capital would have to be real equity—not subordinated debt, not loan loss reserves, not preferred stock. Regulators would step up enforcement and have the right to close any S&L whose capital declined below a certain point.

There's no better way to promote responsible behavior than by making sure that the folks who run S&Ls or banks have a lot of their own money at risk.

In *Beau Geste*, the relief column did arrive, tricolor flying, bugle sounding. But no bugle will end Fizzlick's agony. Either the taxpayers or S&L depositors will have to foot a painful bill. ■

The dead and the dying

The S&L problem is of recent vintage. Less than a decade ago an insolvent S&L was still a rarity. Now, unfortunately, they're commonplace. Don't be encouraged because the number of barely solvent S&Ls has dropped. That's largely because they have joined the ranks of the insolvent, which are at record levels and rising.



* Capital between 0% and less than 3% of assets, according to Generally Accepted Accounting Principles † GAAP negative capital. *Sources: R. Dan Brumbaugh Jr., FHLBB.*

Which is more important, individual or states' rights? If you think the Supreme Court has resolved the matter, read on.

Pity the copyright holder

By Deirdre Fanning

In 1986 computer software designer Bert van den Berg sold seven of his copyrighted computer programs to the University of California at Los Angeles. On delivery the programs were accompanied by a notice that duplication rights were for sale for $500. The university apparently ignored it, and made duplicates without paying Van den Berg a cent. He sued for copyright infringement in federal court, but the judge threw out the case. The reason? Under the Eleventh Amendment of the U.S. Constitution, states—and their subdivisions—are immune from lawsuits seeking damages.

Van den Berg isn't the first copyright holder to run up against the Constitution. Federal courts in at least five states have used the Eleventh Amendment in recent years to dismiss similar cases. At least three more such suits are pending that will doubtless meet the same fate. "Yet what's the purpose of giving a copyright owner a right in the first place if rights can't be enforced?" asks copyright lawyer William Hart at the New York law firm of Milgrim Thomajan & Lee. "It has a deleterious effect on the incentive to create."

After years of letting states walk away from these suits scot-free, Congress now seems to think Hart may have a point. The House Subcommittee on Courts, Civil Liberties and the Administration of Justice has called on the U.S. Copyright Office to assay the damages that have resulted from the lower courts' decisions. Even if it finds that serious harm has been done, though, ending an obvious injustice to the individuals involved without doing harm to the Constitution in the process will be no easy matter.

Laura Cornell

How did the problem arise in the first place? A federal copyright law known as the Copyright Act of 1976 guarantees holders the right to sue for infringement. But the Eleventh Amendment, which grants immunity from lawsuits for damages to states and their subdivisions, exempts states from such litigation.

Copyright protections are as old as the Republic. Not only is unauthorized use of copyrighted materials punishable under more than two centuries of common law, but it is also explicitly prohibited by a clause in the Constitution itself. Historically, the remedy for copyright holders whose works had been infringed upon was a court injunction and damages, the amount of which varied from state to state. But in an attempt to update the copyright laws to accommodate technological advances, Congress in 1976 passed the federal civil statute that also placed all copyright claims under the jurisdiction of the federal courts. About the one thing it didn't do was to spell out whether states specifically could be held liable for infringement of copyrights.

Enter the Eleventh Amendment, which has equally venerable roots. In 1793 a South Carolina man sued the state of Georgia over an inheritance, and although the state disagreed, the U.S. Supreme Court ruled that the state could indeed be sued in federal court. Georgia then led a movement to adopt the Eleventh Amendment.

Since the Constitution is the supreme law of the land, and since its copyright clause doesn't specifically mention enforcement, the Eleventh Amendment defense has emerged as a valid, if narrowly legalistic, way for states accused of copyright infringement to avoid liabilities under the federal copyright statute.

One possible solution to the problem may be a Supreme Court decision on the issue. But in order for the situation to be a true constitutional conflict and thus material for the U.S. Supreme Court, the Constitution's copyright clause and its enforcement statute, the 1976 Copyright Act, must state its intention to subject the states to damage suits for infringements of copyrights.

That is not now the case. To fix that, constitutional scholars say Congress should amend the 1976 act so as to state explicitly that states can be sued when they infringe copyrights. At the moment that seems unlikely. But without such a step the Court cannot decide which right to favor—the individual's or the state's. Meanwhile, states can continue to hide behind a shield for a purpose it was clearly never intended to serve—the theft of ideas. ■

Edited by Laura Saunders

While the politicians subsidize one set of exporters, the IRS wants to punish another set with a new tax scheme.

How to raise the trade deficit

Chas. B. Slackman

ALL WASHINGTON is agreed on the need to close the trade deficit. All, that is, except the Internal Revenue Service, which has its own agenda. The IRS is plotting to raise taxes on most manufacturers who export.

"This is absolutely the wrong thing to do this year," says Robert Perlman, vice president for taxes at Intel. "All it will do is drive up the cost of exports." Adds a spokesman for the National Association of Manufacturers: "Every politician in the country is talking about the need to boost exports. Here's something that works, and now they want to get rid of it."

The something that works is the export source rule, a 66-year-old formula for figuring taxes on exported goods that tends to work in the exporter's favor. By abolishing the rule—and substituting a much more complicated system that does not work in the exporter's favor—the IRS aims to raise corporate taxes by perhaps $2 billion annually for coming years and to get several billion more for years past. Hewlett-Packard stands to lose $100 million in back taxes, in the worst possible case. Caterpillar, Abbott Labs, Monsanto and Dow-Corning are also worried. GM Chairman Roger Smith is said to have discussed the matter directly with Treasury Secretary James Baker.

While hurting exports, the IRS will make life better for accountants. The old rule is one of the simplest provisions to use in the entire tax code. Any replacement is guaranteed to be very complicated.

At issue is the apportioning of profits between the U.S. and overseas. The export source rule cleanly (if arbitrarily) assumes a 50/50 split: If a company manufactures goods in the U.S. and ships them abroad, it reports half its profit as earned in the U.S. and half as earned abroad.

Why does it matter where the profits are made? Because of the foreign tax credit, a sort of rebate of foreign taxes that multinationals can claim to offset their U.S. tax bill. (Without the credit, a worldwide firm would be double-taxed on its income.) The way the credit is calculated, it can go partly to waste for U.S. companies with profits in high-tax places like Germany, France and Japan. By using the 50/50 rule to assign more income abroad, a U.S. multinational can increase the amount of its high foreign taxes that can be claimed as a credit back home.

How so? Suppose Hewlett-Packard makes $100 of profit from its plant in Böblingen, West Germany. A typical German tax on such corporate profit would be about 52%, or $52. The amount of German tax that can be claimed as a credit against U.S. taxes is limited, however, to the foreign income ($100) times the U.S. tax rate (34%), or $34.

But the other $18 of German tax doesn't have to go to waste. Suppose H-P now ships some products from the U.S. into Germany, netting another $100. Using the 50/50 rule, it argues that $50 of this profit was earned in the U.S. and $50 in Germany. This boosts the maximum credit for German taxes to 34% of $150, or $51. Only $1 of the German tax bill goes to waste. The key fact here is that the export source rule generally doesn't raise the company's German income in the eyes of foreign tax authorities. It simply increases one of the numbers the IRS looks at in computing the allowable German tax credit.

Note that there wouldn't be anything for the exporter and the IRS to squabble over if it weren't for the fact that corporate income tax rates are lower here than abroad. "It matters even more since U.S. corporate tax rates have dropped to 34% from 46% two years ago," notes Peat Marwick international tax expert Roger Siboni.

Does that mean that the U.S. winds up subsidizing other countries' high tax rates? Not really, say supporters. Using complex tax rules, foreigners can often give their own firms export tax incentives that lower these rates while denying them to U.S. firms.

Congress came close to repealing the 50/50 rule in the massive 1986 tax revision, but at the last moment relented. Now the IRS has taken matters into its own hands. It has backed an audit of Intel and Hewlett-Packard that disallows use of the rule. The IRS claims that income should be allocated between foreign and U.S. sources using a new scheme that is still unclear but guaranteed to be complex and raise taxes. The firms are trying to get the Treasury Department to call the IRS off, but even if they win that battle they may face another one on Capitol Hill someday.

The U.S. government exhibits a certain schizophrenia about exports. Under the banner of job creation, it helps out uncompetitive exporters with an assortment of Export-Import Bank and Agriculture Department loan guarantees. Sooner or later, the bills come in. (GAO auditors say the Agriculture Department has already managed to lose $1.5 billion on a recent program of export loan guarantees.) Then the budget deficit goes up. And then someone—in this case, maybe internationally competitive producers like Intel and Hewlett-Packard—will have to pay. ■

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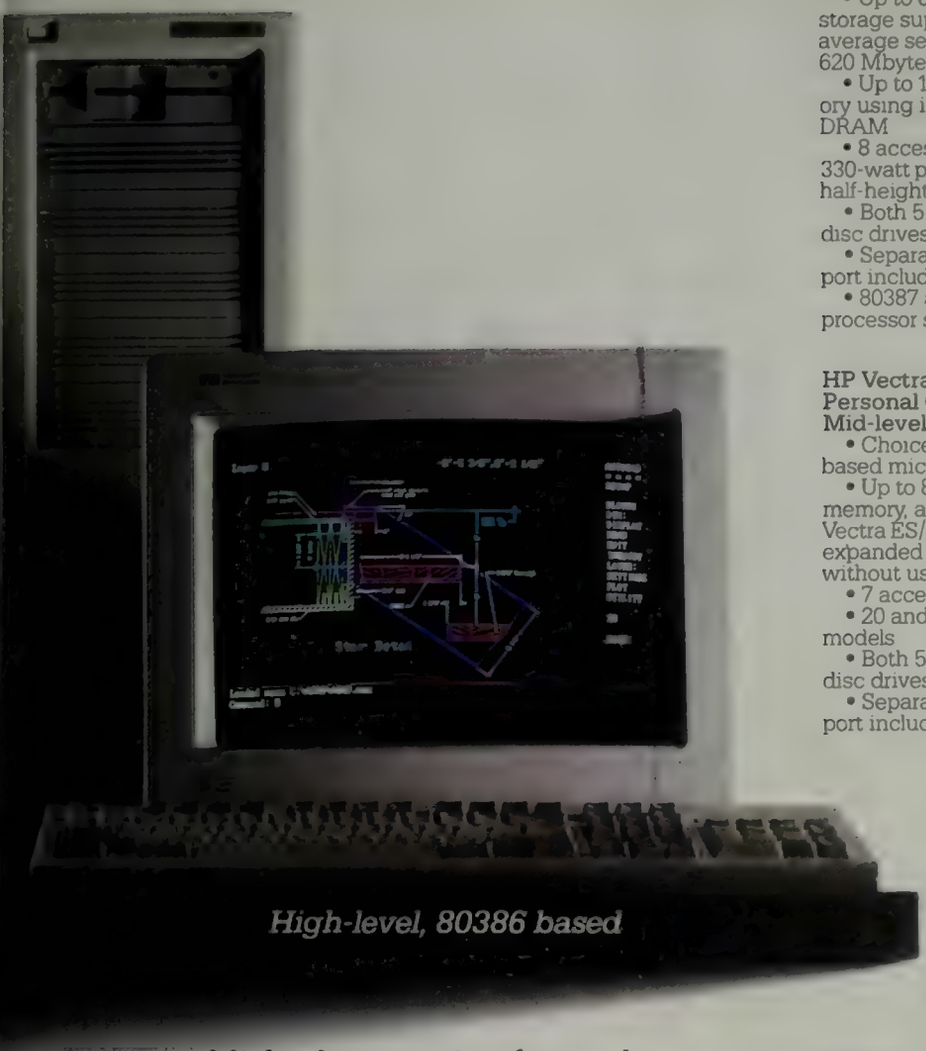

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HEWLETT PACKARD

Fumbles

Rule number one for a growing distributor: Don't make mistakes on inventory. Rule number two: Repeat rule number one. John Shalam's Audiovox shows what happens when the rules are ignored.

Trouble on the line

By Fleming Meeks

WE WERE HANDLING everything from baseball gloves and fishing reels to porcelain dinnerware," recalls John J. Shalam of the trading company he founded in 1960 to import Japanese goods to the U.S. "Then one day [in 1965] I opened a carton—and there was a car radio in it."

To hear Egyptian-born Shalam, now 54, describe it, that radio could have been a gift from the gods, and in a financial sense it was. Within a matter of months, Shalam phased out his other merchandise, changed the name of his company to Audiovox Corp., and began selling his Japanese car radios—and later stereo radios and tape decks—to new-car dealers for 20% to 30% less than the dealers were paying Ford or General Motors for those items. By 1983 still-private Audiovox had sales of over $100 million.

Today Audiovox, based in Hauppauge, N.Y., is public and nearly three times bigger (1987 net sales, $277 million). But Shalam's shareholders are facing a serious problem. To get bigger Shalam made major financial commitments to inventory, and mistakes regarding that inventory are now coming home to roost.

In 1984 Shalam sensed that a new industry—cellular telephones—was going to be hot. To get a piece of the action, he set up an exclusive U.S. distribution deal with Japan's Toshiba, a leading manufacturer (along with Motorola, Panasonic, Oki, Novatel and NEC) of mobile phones. Toshiba's early phones proved to be particularly dependable. And, in a windfall for Shalam, NEC and Panasonic among others were hit in November 1985 with huge antidumping penalties on their cellular phones. Audiovox quickly grabbed a dominant market share; today that share is assessed

Brad Trent/DOT

Audiovox founder John J. Shalam

The feared cutoff of Toshiba's phones failed to materialize.

at 15% to 20% by cellular telecommunications consultant Herschel Shosteck. Last year Audiovox earned $6.5 million (82 cents a share) on revenues of $277 million, with nearly half of sales coming from cellular phones.

It was the move into cellular phones, however, that required Shalam's big inventory commitments, up front, to Toshiba. Whereas Audiovox' car stereos sold at wholesale for as little as $55 and earned Audiovox gross margins of about 30%, the cellular phones sold for as much as $1,200 at wholesale and had margins not much over 20%.

To finance the expensive telephone stock, in May 1987 Shalam raised $33 million for the company in a public offering of 2.2 million of its 9 million shares (management retained 91% of the voting shares). Priced at $16 a share, a giddy 31 times trailing earnings, the little distributor was valued at nearly $150 million.

Almost immediately, Audiovox' cellular phone inventory became a headache. In July, fearing the supply of Toshiba phones might be cut off by Congress as a result of the scandal arising from Toshiba's selling classified military gear to the Russians, Shalam increased the order of phones to 30% above sales projections.

The feared supply cutoff never materialized. Worse, wholesale prices for cellular phones have plunged by around 25%. This has sharply reduced the values of Audiovox' surplus phone inventory and a big chunk of its receivables as well, with Audiovox' dealers forcing the company to share the pain of the markdowns they made to move merchandise. While the company's revenues from cellular sales may grow by as much as 45% this year, earnings will suffer.

"We are facing the situation," concedes Shalam, "where for the next few months we are going to be unloading some unneeded existing inventory, and it will affect our gross profit margins." And while he stressed that "the corporation will not lose money" in 1988, he did allow that earnings "on a per-share basis will be down." Anticipating the bad news, Audiovox' stock has collapsed to a recent price of 6⅜, wiping out by more than half the initial public investors' capital.

By itself, the inventory problem is embarrassing but probably manageable. The cellular industry continues to grow rapidly (FORBES, *Apr. 18*). Consultant Shosteck estimates the number of cellular subscribers will increase from 1.1 million in 1987 to 1.6 million by year-end. Shalam predicts that in 1988, with lower wholesale prices, Audiovox will nearly double the 127,000 phones it sold last year.

But Shalam faces a problem potentially more serious than his sick inventories. With the rise in popularity of portable cellular phones, the phone is increasingly being regarded as a consumer electronic product rather than a specialty product. New York's 47th Street Photo and Crazy Eddie, to cite but two retailers, are selling cellular telephones now. With no consumer brand-name recognition, Audiovox may well lose market share to recognizable names like Motorola, Panasonic and NEC.

Not that Shalam personally is hurting. During the years when Audiovox was private, he acquired lots of real estate. He currently owns, or has a controlling interest in, six of Audiovox' seven largest buildings; these were financed, at least in part, by interest-free loans from the company. Add in equipment that two of Shalam's partnerships lease to the company, and last year Audiovox paid Shalam over $1 million in rent. (The company also paid $701,150 to a Hong Kong corporation owned by Shalam's 83-year-old mother, Vicky; her corporation acted as a buying agent in Taiwan and Korea.) Too, there is the $437,000 salary Audiovox paid him last year, the $3.6 million worth of stock he sold when the company went public, and more stock worth $35 million even at current low prices. Whether Audiovox thrives or dives, John Shalam has done very well. ■

The Up & Comers

Entrepreneurs

The Japanese have more than protectionism to worry about. They increasingly feel threatened by Asian competitors like the Wang family of Hong Kong.

Small motors, big profits

By Andrew Tanzer

BRITAIN'S LEASE on Hong Kong is set to expire in 1997, when the colony will revert to China. Many businessmen in this teeming capitalist enclave have made plans to flee. But many others are staying put and reinvesting, in the hopes that Beijing's communist leaders will decide they need good businessmen.

An outstanding example of the stay-put group is the Wang family and their $100 million (fiscal 1988 estimated sales) Johnson Electric Industrial Manufactory Ltd. Johnson is the world's second-largest independent producer of micromotors (Japan's $400 million sales Mabuchi Motor Co. is first). Johnson micromotors find their way into products as disparate as Kodak cameras, Krups citrus juicers, Conair hair dryers and Black & Decker cordless tools. In cars, micromotors are used in headlight wipers, adjustable mirrors, central door locks, electric aerials and fuel injection systems—all the stuff, in short, fast becoming standard equipment in the increasingly competitive auto business.

The billion-dollar micromotor industry is expanding by over 10% a year in volume terms. Sadly, U.S. manufacturers have all but abandoned the micromotor business to Asian competitors.

An example of a very well managed small company, Johnson is also a case study in how the capitalists who plan to stay in Hong Kong are forging a strong and growing interdependence between Hong Kong's and China's economies.

Mary Beth Camp Matrix

Johnson Electric founder Wang Seng Liang and son Patrick

Doing business with the communists has nothing to do with politics.

Johnson was founded in 1959 by Wang Seng Liang, a textile industrialist who immigrated from Shanghai via Taiwan (the name Johnson is a transliteration of the Chinese *zaocun*, literally "make an inch," the name of a chain of Hong Kong tailors owned by Wang). Wang, today 74 and chairman, has ceded day-to-day control to his son, Patrick. A daughter, Winnie, oversees finance. Another son, Richard, runs U.S. operations.

Johnson has subcontracted much of its most labor-intensive processes to factories just across the border near the booming city of Shenzhen. The Chinese partners supply land, factory space and labor; Johnson provides equipment, components and technical assistance.

Such commerce has nothing to do with politics—Chairman Wang knows firsthand the evils of communist rule—and everything to do with economics. Quite simply, it pays the company to do more and more work within China because Hong Kong's booming service industry, especially the hotels and Japanese department stores sprouting all over the territory, is drawing workers away from factories. Factory wages in the colony are climbing 15% to 20% a year, and are now typically over $2 an hour, about the same as in Korea. Complains Managing Director Patrick Wang, 38, a Purdue-educated engineer: "We're running out of people and room in Hong Kong."

In the People's Republic, there is plenty of land and cheap labor. Over the past few years the Pearl River Delta region of southern Guangdong Province has been transformed into a virtual satellite of Hong Kong. Factory wages in Guangdong Province are less than one-fifth the level in the British colony. An estimated 1.2 million workers there are now directly employed by Hong Kong manufacturers, compared with around 800,000 in Hong Kong itself. The link will tighten after an expressway connecting Hong Kong and Guangzhou (Canton), and passing through Shenzhen, is opened in three years.

Every morning Johnson trucks its Hong Kong-produced components across the border to Shenzhen, and every evening it trucks back the subassemblies. Most final assembly, testing and quality control are done in Hong Kong. By moving some production to China, Johnson has managed to boost daily output by 60% over the past 18 months, to 400,000 motors, while reducing its Hong Kong work force.

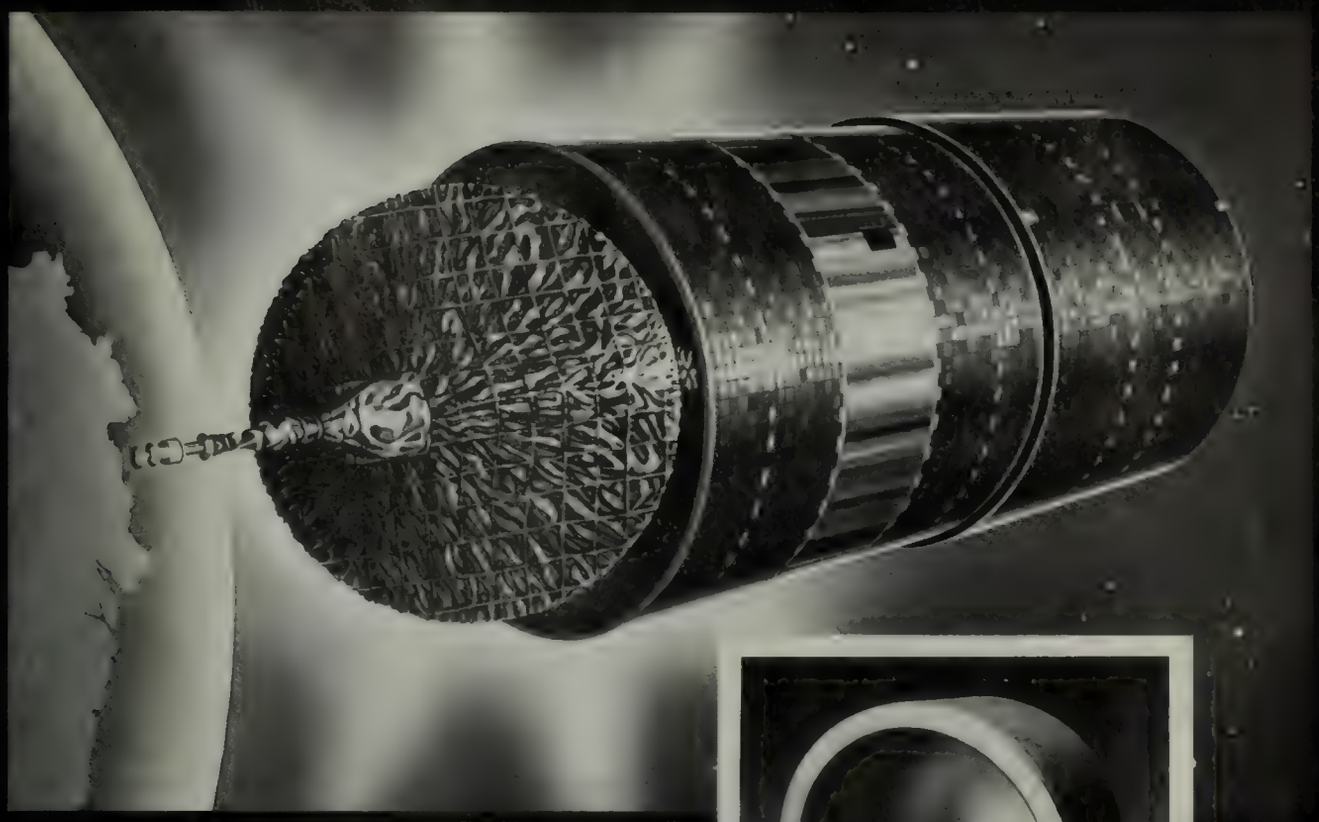
The results show up clearly in Johnson's financial statements. The company routinely posts net margins of over 20% and a return on equity of nearly 50%. Sales, which have quadrupled since 1982, were estimated at $100 million in the fiscal year ended last March, net profits at $20 million. Johnson's stock trades on the Hong Kong Stock Exchange at around 16 times last year's estimated earnings, valuing the Wang clan's 67% stake at over $200 million.

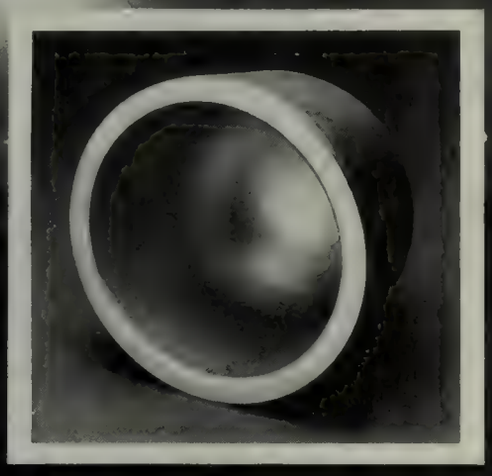
While many Hong Kong manufacturers with such wealth would be booking their flights to Vancouver and Toronto, Johnson's Wangs are investing heavily in capital equipment and R&D at home. Johnson spends 2% to 3% of sales on R&D and accounted for a majority of the patent applications filed in Hong Kong last year. Most of Johnson Electric's annual capital spending of $15 million is going into automation machinery at its plant in Tai Po, in Hong Kong's New Territories. Built on reclaimed land, the six-story factory has specially reinforced floors to support heavy equipment.

Relentless striving for lower costs and higher productivity and quality is Johnson's heritage. Johnson grew in the 1960s by supplying small motors to Hong Kong's growing motorized-toy industry. In 1968 the firm formed a joint venture in Hong Kong with Long Island's Rowe Industries Inc., which pioneered industrial and commercial-grade micromotors in the early 1960s. Alas, Rowe was bought by Aurora Plastics Corp., which was swallowed by Nabisco. The Wang family bought out Nabisco's stake in the joint venture in 1975. "Nabisco was a biscuit company," explains Patrick Wang. "They weren't interested in motors."

As the younger Wang brothers, both American-educated engineers, became active in the company in the 1970s, they de-emphasized their father's strategy of producing standardized, commodity micromotors for low-value-added products such as toys, and began emphasizing customized, higher-value-added motors for less price-sensitive customers such as Black & Decker (Johnson's largest account). Today less than 5% of sales are to the toy industry. Working closely with customers to design application-specific micromotors for new products won Kodak, which recently gave motor production for its new disk camera to Johnson. Sunbeam, Hamilton Beach, Black & Decker and many other manufacturers that used to make motors themselves have shifted production to Johnson.

Johnson is just the kind of Asian competitor that is starting to give the Japanese fits, thanks not only to lower costs but also to steadily improving quality. "Before, after customers tried Johnson's motors, they returned to Mabuchi," complains A. Ohnishi, senior vice president at competitor Mabuchi Motor. "Now, they stay with Johnson." ■





Forging Ahead

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Wyman-Gordon, an old-time metal bender with a sharp eye for technology, is poised for a big recovery. Now, if only aluminum and other metals prices would hold steady.

Never a dull moment

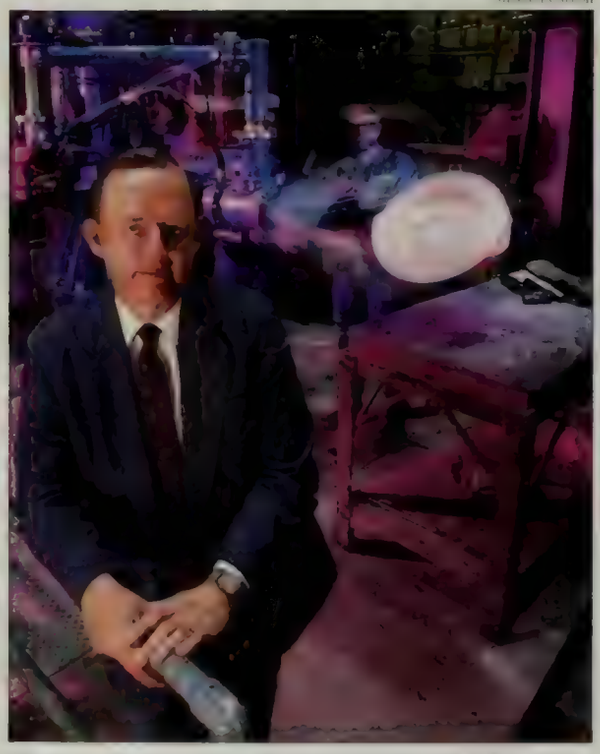
By Laura Jereski

EVERY FEW SECONDS, violent tremors shake the squat building at 105 Madison Street in Worcester, Mass., headquarters of Wyman-Gordon Co. Seventeen-ton hammers are smashing metal much as they have for over 100 years, once to make railroad-car couplers, today to make disks, engine parts and wing attachments. But that's nothing like the pounding Wyman-Gordon has been taking recently.

Since 1981, when sales hit $610 million and return on equity 27%, writeoffs and foreign competition have cut the business, to $310 million last year, and profits have fallen from $57 million to an expected $16 million—90 cents a share—this year. The crankshaft market, which Wyman-Gordon pioneered in 1902 and long dominated, has largely fled to British, German and Japanese manufacturers.

But the latest concern is aerospace forgings, which brought in 80% of the company's revenues last year. Major military programs like the B-1 bomber are winding down. And now skittish metals prices seem bent on sucking the profits from the recent flood of commercial aircraft orders (Boeing alone is building at least 295 planes with 650 engines). As one of the few forgers specializing in engine parts and large structural forgings like landing gear, Wyman-Gordon is guaranteed a piece of the new business.

The company figures Boeing's plane orders will boost sales between $50 million and $100 million over the next couple of years (1988 estimated sales $325 million). The problem is: How do you make money in a competitive business when your raw materials prices are rising fast? Recently, aluminum hit a new high of $1.84 per pound on the London Metal Exchange. Nickel, which is used to make stainless steel, hovers at $7 per pound, more than twice its price in November.



Wyman-Gordon Co. President James Walsh
"We should be ordering now for 1990."

No smiles, then, from the man who walked into this mess, James Walsh, the soft-spoken 54-year-old electrical engineer by training who left Raytheon a year ago to take the reins at Wyman-Gordon. Come fall, General Electric will open bidding for its engine forgings (226 engines just to fill the orders placed with Boeing by Beverly Hills, Calif.-based International Lease Finance Corp.). To bid on the business, Walsh will need an exceedingly sharp pencil. How do you figure costs on business that will be delivered over 18 months when you have no idea what your raw material costs will be?

"We should be ordering now for 1990 [engine] deliveries," frets Walsh. "But our ability to get a firm price is questionable." Walsh says Wyman-Gordon has enough nickel to make an initial bid. But after that?

Nail-chewing time for Walsh. The last time Wyman-Gordon bet on metal prices, it lost—and how. In 1982 Wyman-Gordon feared it might be caught short of titanium. So it invested in International Titanium Inc., a company that promised a new technology for extracting the metal, and became a full owner in 1984. Within two years titanium prices had stabilized and the technology proved a bust, forcing the company to write off its entire $40 million investment—the most expensive piece of an $85 million restructuring effort.

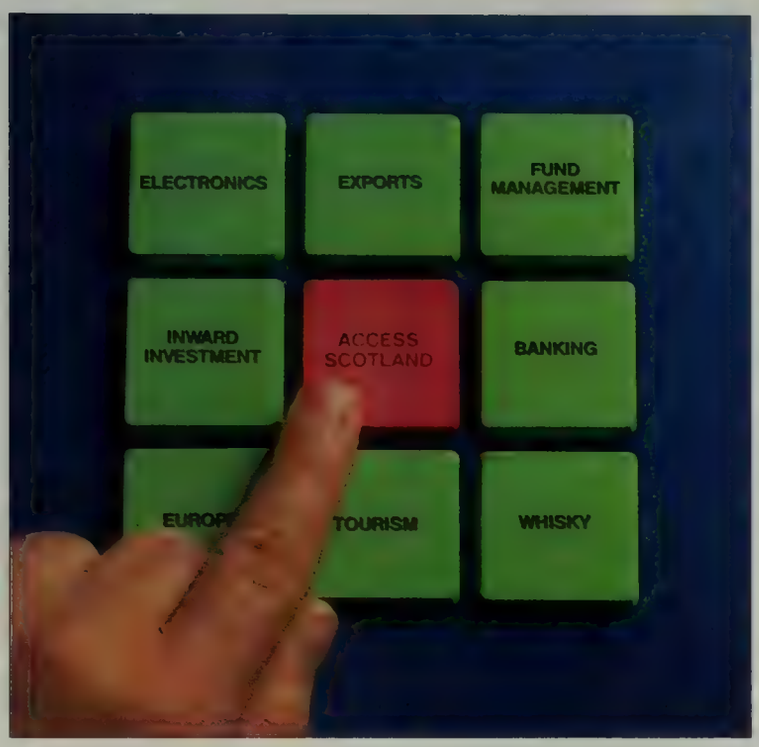
A well-heeled company, Wyman-Gordon has an old-fashioned New England kind of balance sheet. Long-term debt is $15 million, versus cash, currently $32 million. Thus it has been able to invest heavily in technologies that have higher profit margins than the business lost to foreigners, and cut down on inventory risk. Walsh is making capital investments of $30 million, including plasma arc melting, which will let him extract cleaner nickel alloy from cheaper metal, and precision forging, which cuts down on the amount of metal needed to forge a piece. Thanks to this technique, where it might once have taken 5 pounds of metal to forge a 1-pound engine part, precision forging can cut that to 1½ or 2 pounds.

Problem is, competitors like Alcoa, which forges large structural aluminum parts, and Ladish, a rival for the engine business, are also moving into higher-profit-margin forging.

So, for all its technological expertise and its sound balance sheet, Wyman-Gordon is going to have to take a chance on metals prices. If the recent price rises are just a reaction from the abnormally low prices of a year or so ago, James Walsh can probably figure on fairly stable prices for his raw materials. But if all this proves to be the first stirrings of revived metals price inflation, this company, despite its technical skills, could see profits pounded once again. ■

SCOTLAND

YOUR ACCESS TO EUROPE



Scotland has always had an international outlook: forging its first economic links with America and the Far East more than a century ago. Now it stands on the brink of a new era of international expansion as Europe prepares for 1992 and the establishment of a single European market.

The potential is mind-blowing. The 12 nations of the European Community (EC) are committed to dismantling the few remaining barriers to trade, creating a single market of 320 million people - 50% larger than the US domestic market.

For Scottish companies and international groups with a Scottish base, the chances are there to be seized.

Scotland is well placed to exploit the opportunities that will be opened up. In the last decade it has modernized its industrial base and profited from the strong resurgence of the UK economy, now the fastest growing in Europe. Its major industries – once steel, coal, shipbuilding and engineering – are now electronics, whisky, oil and financial services: all internationally-based and used to exporting their products.

A new dimension to the Scots inward investment effort has been opened by the plans of the European Commission to create a genuinely open market by 1992. As many businessmen have been pointing out, US and Japanese companies concentrating on the globalization of their markets will find it ever more difficult to ignore such a large and easily-accessible market in their expansion plans.

"Let us forget that in Scotland we are on one edge of the EC map – so are Ireland, France, Spain, Portugal, Italy, West Germany, Denmark and Greece," points out Barry Sealey, managing director of Christian Salvesen, the Edinburgh-based company that is becoming a major player in the European food distribution market. With its highly developed communications and transportation infrastructure, Scotland is an ideal base from which to attack the European market.

A new wave of interest by US firms in acquiring Scottish companies with pan-European operations is also forecast by finance experts. The traffic, however, is not all one way. Scottish companies are becoming increasingly active in acquisitions, particularly in the US where the strong British pound has made dollar purchases easier. Book publishers William Collins bought a 50% stake and effective control of Harper & Row in New York for $170 million, while Scotland's largest bank, the Royal Bank of Scotland, bought the Rhode Island savings bank Citizens Finance Group for $400 million.

The oil industry has seen several Scottish businesses shrewdly building niche positions in the world supply and maintenance markets. The privately-owned Wood Group of Aberdeen now dominates the down-hole instrumentation market after buying six US companies in the past 18 months, and Ferranti Sub Sea Systems in San Diego, a subsidiary of Ferranti in Scotland, is on the way to achieving the same objective in remotely-controlled field production systems.

Increasingly attention is turning to Europe. Kwik-Fit, the leading UK retailer of tires, mufflers and other auto components, recently announced its launch into France, complementing its major presence in Holland.

Financial Services

SCOTLAND
YOUR ACCESS TO EUROPE

European deregulation is likely to reinforce Scotland's position as a major international financial center, building on its established reputation and wide range of expertise.

By coincidence, Scotland's two largest banks, the Royal Bank of Scotland Group and Bank of Scotland, have recently refurbished their headquarters, solid stone buildings, constructed in a past century of affluence and confidence. The object in each case was not to modernize, but to re-emphasize the features of the past. It is a rediscovery of past virtues – like prudence and shrewdness – which have made the Scottish banks highly prized in the UK, standing at a stock market premium to their London competitors.

Super-regionals in their own markets, they have carefully exploited niche markets in UK and international business. They have avoided most of the severe problems which have beset international banks. Both have made above-average provisions against their sovereign loans and still declared record profits and both are now looking to exploit their formidable combinations of strong balance sheets and close management controls by expanding overseas.

The Royal Bank Group – larger of the two with $35 billion in assets – has made the first move with its declared

Royal Bank's Winter: planning major move into Europe

From scenes like these, old Scotia's grandeur springs,
That makes her loved at home, revered abroad:
Princes and lords are but the breath of kings,
"An honest man's the noblest work of God."

THE COTTER'S SATURDAY NIGHT Robert Burns

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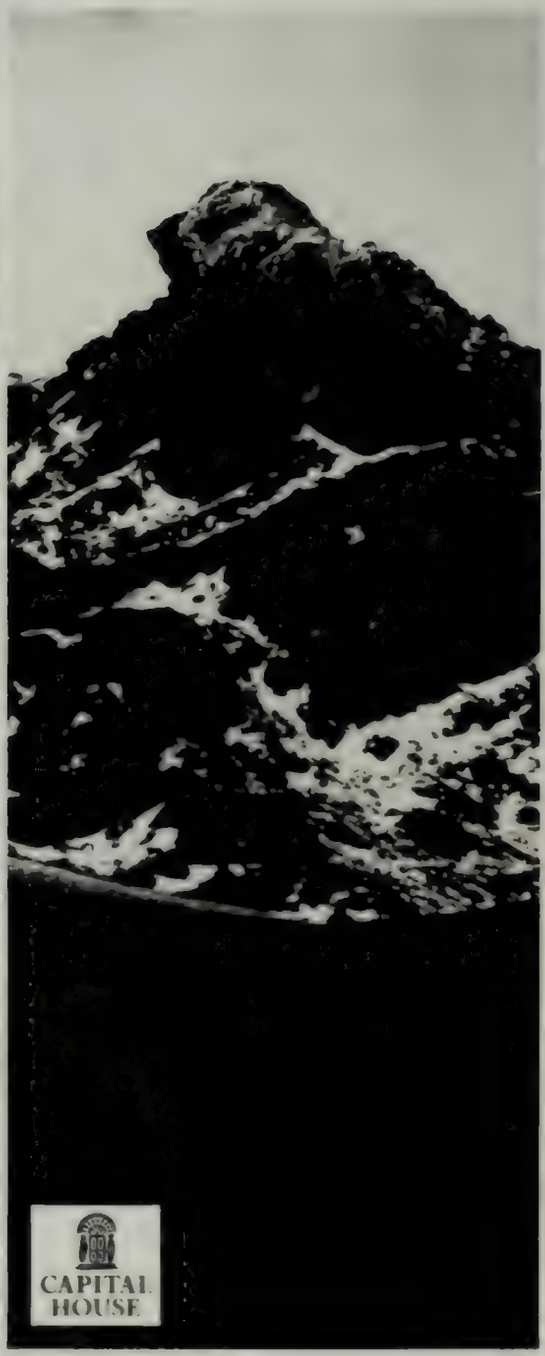
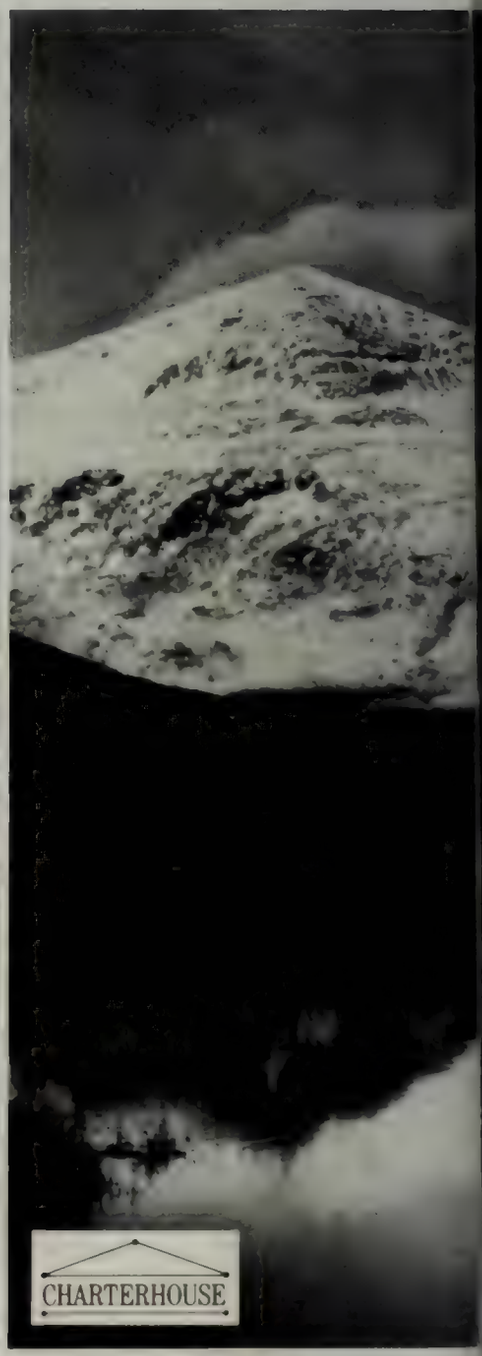
IN THE FINANCIAL S
IT'S SCOTLAND'S





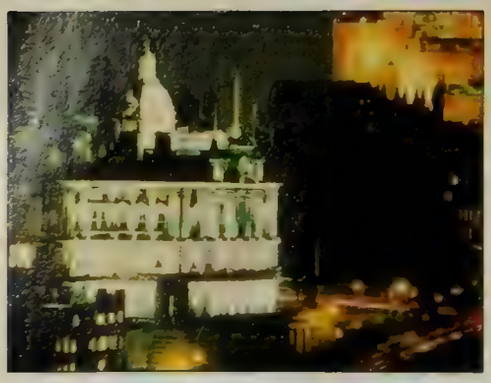
VICES LANDSCAPE, EADING RANGE.

The Royal Bank of Scotland Group is Scotland's largest, broadest and most successful financial services group.

Its interests extend beyond retail and corporate banking, to investment banking, asset management, leasing and insurance, and beyond the borders of Scotland to the rest of Britain, where the Group already serves over 2 million customers, and the world.

As the Group plans to reach still greater heights, in the UK and worldwide, its commanding position in its domestic market provides the soundest of bases.

The Royal Bank of Scotland Group plc



Bank of Scotland: looked at US bank purchases

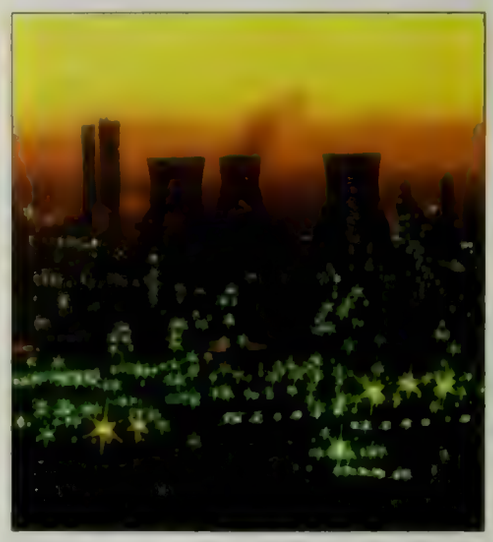
intention (subject to satisfactory negotiations with the regulatory authorities) to purchase the Rhode Island-based Citizens Finance Group, which Charles Winter, the Royal Group CEO, makes clear is the first of a planned number of US acquisitions. But, characteristically, the Citizens move came only after a long and painstaking hunt through the US banking market. Scots bankers know what they are looking for and are not easily tempted into badly-researched purchases.

Rival Bank of Scotland last year passed up the chance to acquire First City of Houston from the FDIC after the price moved out of the range it thought was reasonable. "We may have deep pockets, but we also have short arms," says Peter Burt, Bank of Scotland's Treasurer and Chief General Manager. "We are not going to pay out vast sums of money unless we get good value for it."

Both banks are now also looking for acquisitions in Europe and expect to be strongly placed by the time the single market arrives in 1992. The Royal has been looking at France, Spain and West Germany. "We will move when we are certain we have identified the right opportunity," says Winter. "We are currently reviewing various potential projects and certainly expect to have some in place by 1992."

Bank of Scotland is concentrating on the smaller countries such as Italy and Spain where, says Burt, the market is not already dominated by large international banks and there is more prospect of change following deregulation.

Scotland's two leading independent investment managers, Murray Johnstone with $7 billion under management and Ivory & Sime with $3.5 billion, are also working towards the opportunities presented by the European single market. Both have established US and Japanese links and long experience of managing global investments for US pension funds. They are now working on the opportunities to sell their investment



Grangemouth refinery in Central Region: heartland of Scotland's growing petrochemical industry attracting investment from BP, ICI, Borg Warner and others

McAndrew: managing US pension Funds

and unit trusts (closed and open-ended mutual funds) into Continental Europe and to offer their expertise in European markets to US customers.

"One of the jobs we could do well for US companies is manage the pension funds of their European subsidiaries," says Nick McAndrew, Murray Johnstone's CEO. "We already do it for the UK subsidiaries of corporations like Johnson & Johnson, Motorola, NCR, Mobil and TWR; there is no reason why we could not do it for subsidiaries based elsewhere in the EC."

Ivory & Sime's Alex Hammond-Chambers comments: "The whole concept of 1992 is bound to be reflected in European stock market prices and we expect Japanese and American money to pour into it. We are ideally placed to help them invest those funds." Ivory & Sime, he points out, already has several specialized European mutual funds and a French director on its board.

ROHM & HAAS AND SCOTLAND'S CENTRAL REGION...

Yes, the perfect formula. That's why Rohm & Haas, a world leader in plastics modifiers, recently announced a multi-million dollar expansion of their plant in the heart of Scotland

As Europe grows towards single market status, Central's ideal business location gives the company every opportunity to develop market potential to the full.

Still, don't take one company's word for it! Ask Borg-Warner, ICI, EniChem and BP all giants in the petrochemical field who are also investing heavily in Central.

But not only is the petrochemical industry successful in Central Region. Engineering, electronics, glass and ceramics, evidenced by the presence of companies such as Daniel Industries, Wang and Owens-Illinois all thrive and prosper in the area.

For further information on Central Region call or write to Arthur Down, 13319 Myrtlea, Houston, Texas 77079. Tel: (713) 468 2952.

THE PERFECT FORMULA

Central Region
There's a future in it!

The Dewar's White Label drinker will appreciate the skill of the still man at Aberfeldy where malt whisky for the top selling brand is produced.

If you have discovered the real pedigree in Scotch, it is worth discovering Evan Cattanach. You will find him, a friendly, powerful six-foot figure, usually in a kilt and often in song, running the Cardhu Distillery in northeast Scotland.

Scotch today has clearly become something you savor rather than drink. After all this time you have come to appreciate the essential quality in whisky a bit like you might realise the craftsmanship in the antique clock ticking for generations on your mantelpiece.

That is why you might visit Evan. He makes or rather, crafts, Cardhu, the best-selling malt whisky produced by United Distillers, the spirits division of Guinness. He has been expecting you to make this discovery, although there were times in his 27 years turning out the finest Scotch that recognition of its fundamental values has seemed a long time coming.

Evan Cattanach keeps careful watch over his casks of gently-maturing Cardhu single malt whisky.

"This is an under-appreciated craft," he says, a touch philosophically, while on a tour of his distillery. Few fail to appreciate the setting of Cardhu, tucked prettily into the hill side near the River Spey in northeast Scotland. Long haired Highland cattle tug at the grass nearby.

United Distillers, too, has made the same discovery about Scotch. It has been a voyage of discovery within itself, a realization of inner worth. The company has anticipated that change in consumer tastes, the kind of revelation you have had about Scotch, has been gathering speed in the United States. The enviable situation of management at United Distillers is that it is in a unique position to do something about it – and has.

This is the company with the best selling Scotch whisky in the US, Dewar's White Label. The company also has brands in the top three of the world's other main markets, has a brand leader in 120 individual countries and its Johnnie Walker is the best-selling Scotch worldwide. Then there is Cardhu which with 80 other brands makes United Distillers the world's

Great care is taken at every stage of distillation.

largest producer of Scotch whisky. (It also makes gin, Bourbon, vodka and other spirits). So when the market changes, United Distillers has the power base to change with it.

All the signals from the US market show that people are drinking less but drinking better. Consumers are increasingly sophisticated and discriminating. One look at the vast array of Scotch available, as well as the way it has been sold in volume, and United Distillers' management realized what was going wrong. The spirit was in danger of becoming debased: a whisky produced by craft sold as if it were a mass-produced commodity.

More and more people have discovered good Scotch whisky like the serendipity of a new and exciting wine. Higher quality whiskies are today the symbols of accomplishment and accomplished taste.

At the same time drinking habits are more international. There is less chauvinism in what people consume worldwide. The French, German, Italian and Spanish are ready to put down a wine glass to enjoy a tumbler of whisky or gin while Americans, who favor wines more, are increasingly choosey about the spirits they buy.

United Distillers might not sell more in volume but the value of the spirits it sells in the US market is on the way up. The emphasis has switched from quantity, where it is important to straddle the entire gamut of tastes, to quality and identifiable, sustainable demand.

In the American market, where there is a growing demand for quality and premium Scotch brands, United Distillers is setting the trend which will take Scotch back to the forefront of drinking fashion.

Tony Greener, Managing Director, United Distillers.

Evan Cattanach feels that way. Scotch is not a commodity to him. His boss Tony Greener, the man Guinness hired from a successful career with Dunhill last year to become Managing Director at United Distillers, also thinks of Scotch as a craft. Greener, at the head of a new management team, has restructured the company and initiated some radical thinking about how it approaches the market to respond to these leanings in taste.

This is music to the ears of Cattanach and the managers at United Distillers' 29 malt distilleries dotted around Scotland.

They produce the distinguished line of malt whiskies such as Cardhu and Royal Lochnagar which are sold on their own to a small but highly discriminating market.

The majority of whisky bought is blended from 30 or 40 malt whiskies of different maturities which form the building blocks for Scotch like Dewar's.

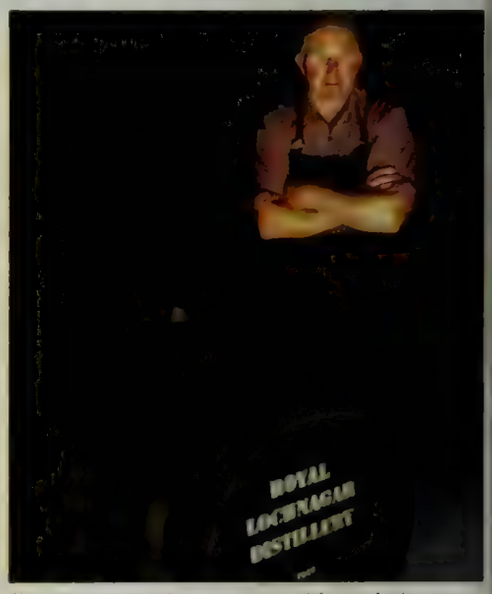
Blenders with formulae, which they guard as close as the recipe for an exotic perfume, combine the various malts with grain whisky to make a blend. A deluxe blend such as Johnnie Walker Black Label is created with rarer more mature malt whiskies.

Dewar's is bottled in Perth and draws a good part of its malt whisky from the Aberfeldy Distillery nearby. The founder of the distillery, John Dewar, was born only a mile or two away.

The blender has a rich choice of malts from which to choose. He could take the peaty whisky from the Isles of Islay or Skye, the soft, smooth tasting Scotches from Speyside such as Cardhu or the distinctive Lowland malts further south.

The craft of the blender takes over from the craft of the distiller such as Evan Cattanach, or Alistair Skakles.

The angels must watch over Alistair. They probably fly in close, in expectant formation over his distillery in the Highlands. On an average day Skakles and his staff of nine will probably produce enough to fill 516 bottles with the kind of pure malt whisky that makes hard men speak in reverent tones. As his whisky, Royal Lochnagar, matures in barrels over the next 12 years, two percent per year of it will evaporate. That, says Skakles, is the angel's share. Lucky angels.



Traditional skills are passed from father to son.

[illegible] in producing malt whisky with the Royal seal of approval.

Scotch is the craft of Cattanach and Skakles. Their hands calculate the moisture of the malting barley, their noses read the amount of flavoring peat smoke used in the drying process. Through tiny windows in the sides of the big copper stills their eyes note the bubbles which show that the steam heating coil is at the right temperature for distillation.

Later as the output of the second distillation gushes into glass funnels, their experience will tell them the exact point at which to catch and divert the middle cut of liquid which is free from impurities and set it aside in casks.

For the newcomer the malt distillery is a world of shining copper, brass pipes, spotless equipment and the seals of the customs officers.

Royal Lochnagar Distillery is in a wooded setting, a cluster of soft grey stone buildings a few yards up a gentle hill from the River Dee which carries the melted snow of the surrounding mountains down towards Aberdeen and the sea.

Considering the acclaim which the Scotch produced here receives, the distillery has a discrete, almost unobtrusive feel to it. It could be the neighbors. A small forest away is Balmoral Castle, built by Queen Victoria

Alistair and Helen Skakles.

and still a summer retreat for Britain's Royal family. Prince Charles, an active hill walker, wrote a children's story "The Old Man of Lochnagar," based on the 3,789 foot mountain that broods over the forest and its tenants.

On September 12, 1848, accompanied by Prince Albert and her children, Queen Victoria visited the distillery to taste the produce of the owner, John Begg. In a bold gesture, Begg, whose name is still carried on one of United Distillers labels, had written an invitation to the Queen to call.

What she thought of the Scotch produced next door to Balmoral remains the subject of considerable historical gossip. But it seems she liked it. She bestowed on Begg a warrant allowing him to call his Scotch "Royal." The story is best told in a soft rolling highland accent by Alistair Skakles' wife Helen who takes you round the distillery.

Royal Lochnagar: A short distance from Balmoral Castle, holiday home of the Royal Family.

At Cardhu there is also a heritage center. It reflects the worth United Distillers places on the heritage of Scotch. Here is one of Scotland's major industries on display, one of the United Kingdom's big export earners, one of the world's crafts. Cardhu or Royal Lochnagar are appreciation points, observation posts for the growing band of aficionados of the highest quality of whisky and an information center for those not as far along the learning curve.

Hidden away in Scotland's countryside are many other distilleries where the visitor receives a warm welcome.

They are part of the Scottish landscape; identifiable by their small, pagoda-like malt kiln towers. The unhurried nature of distilling and maturing Scotch gives a deceptively sleepy feel to the vibrant craftsmanship of making whisky. Around the distilleries are small, rural and island communities often held together by the industry and a skill that is passed from father to son.

There has been a distillery at Cardhu for over 150 years.

Lagavulin on Scotland's whisky isle – Islay distils a heavily peated single malt.

The crafts and skills required to produce Scotch whisky have changed little.

The skill becomes a way of life, a craft becomes a career. Men like Andy Mulligan, the mash man at Cardhu have been at the job 30 years. Arthur Morgan who works the still has done his job for 27 years.

The variety of malts available to the blender derives from their handiwork and a unique set of circumstances that make each malt whisky different – even if the distilleries are next door to each other. The softness of the water is never exactly the same. The varieties of local flowers, which ages ago helped form the peat used to dry the barley, lend to the local character of a malt. It could also be the angle at which the pipe carries the whisky-laden steam from the still to the condensing pipes. Science explains a good deal of the properties of whisky but it gives way gracefully to probability, possibility and deeply-held myth.

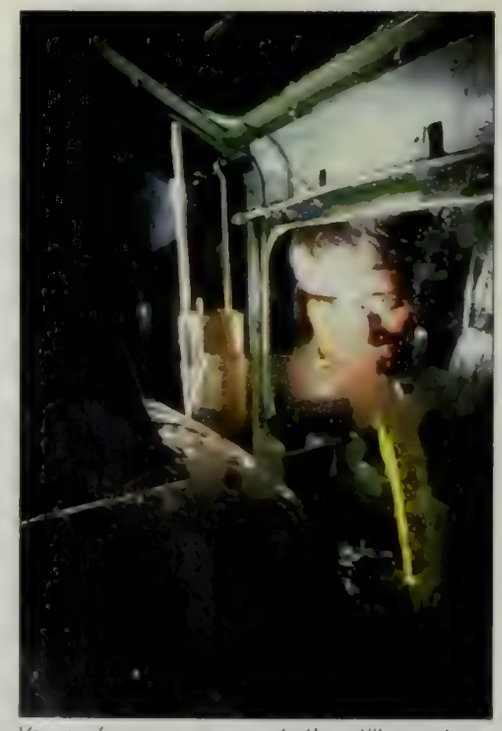
United Distillers employs over 100 scientists and technicians to analyze and guarantee the quality of the product. But for critical final assessment – the one that will take in the magic of the Scotch, the fine nose of an expert is called in for a certifying sniff

Greater attention to research is helping United Distillers identify its top of the market Scotch whiskies for consumers rather like fine wines carry an appellation control.

Legislation now before the British Parliament will also do much to protect the integrity and unique nature of whisky produced in Scotland.

United Distillers has developed a new strategy to address the demands of a more value-sensitive market. A key element of this strategy is designed to regain control of the way brands are distributed throughout the world.

Just 12 months ago the company controlled only a quarter of its product distribution overseas. Today more than three-quarters of distribution has been brought in-house.



Years of experience guide the still-man to time the exact moment when he draws off the right "cut" from each distillation ensuring it is free from impurities.

A steady process of joint ventures and acquisitions has put the group firmly into a position to determine exactly how its products are marketed.

By controlling its own distribution system United Distillers is able to enhance the position of its leading brands throughout the world.

The formula struck by Greener and senior management confirms United Distillers as the world's most powerful international spirits company. United Distillers holds 40% of the world market for Scotch, the number one spirit in the world. The market in terms of volume might look static but the real promise is in sales of premium Scotch and profiting from more effective distribution systems. In the US this means a British-French alliance has been put to work.

United Distillers' parent company, Guinness, and the French Moet-Hennessy group have formed a joint venture known as Schieffelin & Somerset. This handles the distribution of leading products from both portfolios: from United Distillers Johnnie Walker and Tanqueray Gin (the most successful imported gin in the US) together with Moet et Chandon and Hennessy, the world's leading brands of Champagne and Cognac.

In Gaelic the name whisky – Uisge beatha means water of life

To ensure the quality of each cask Scotch whisky is given a certifying sniff.

Dalwhinnie Distillery – the highest distillery in the Highlands.

Together they have a turnover of over $500 million representing more than five million cases annually.

Also in the US, Guinness has purchased Schenley Industries for $480 million from the Riklis Family Corporation. Schenley already handles the distribution of the market-leading Dewar's and Gordon's Gin for United Distillers.

Both these moves place United Distillers in an enviable position in the US which remains the number one market for Scotch in the world. It also enables the company to maximise the potential of its leading brands.

The Schenley purchase has extended the company's portfolio of drinks to include Bourbon. Schenley runs the third largest Bourbon business in the US and the I W Harper brand, is market leader in Japan. Other Bourbons include George Dickel Tennessee Whiskey, Rebel Yell, Old Charter and Weller.

Tony Greener's plan is to bring his company closer to the customer and restore the premium image of Scotch. In the US, the strategy is guided by Willie Pietersen who controls United Distillers interests in North America.

The connoisseur does not buy a bottle of Dewar's like a bottle of ketchup. Scotch is selected with the same care as one might choose a fine fishing rod. As a matter of fact, the advertising people have monitored this development and have found out that people choose Dewar's as a demonstration of their success, a mark of achievement, an appreciation of value.

Willie Pietersen.

Aberfeldy: casks of whisky maturing.

Johnnie Walker Black Label is the best selling deluxe Scotch whisky in the world.

Then there is another breed of Dewar's drinker who buys Scotch for its Scottishness. The drink conjures up images of the hammer throw at the Highland Games, as the ad shows, or the skirl of bagpipes through the mist. The consumer is probably an enthusiast at Burns suppers and can recite Robert Burns' famous Address to the Haggis by heart.

The marketing of Dewar's has accordingly been planned to continue on these two different levels in a highly eclectic marketplace: Dewar's for the discerning achiever and Dewar's for a true flavor of Scotland. Dewar's' share of the US market has been improving since 1970 on a gentle but definite upward curve.

And just in case you had not noticed it, about $25 million is going into a radical and witty new approach to Johnnie Walker. "What the spirits business needs is a good swift kick," according to Penn Kavanagh, President of Schieffelin & Somerset.

The kick has taken the form of some daring new advertising. "He loves my mind and he drinks Johnnie Walker" one girl says to another on the beach. "Good taste is always an asset," reads the subtitle. The advertising brings Scotch right up to date. You do not, the ad men want to say, have to be an old fogey to drink Scotch whisky.

Cardhu is also in the hands of the advertising people to tap the rich new seam of quality appreciation among consumers. United Distillers has

specific plans for its malt whiskies – the non-blended whiskies straight from the distilleries in the glens.

It has found classic qualities in six of its malts. Their strong individual characters will doubtless figure on a voyage of discovery into Scotch. Besides Cardhu there is 16-year old Lagavulin from Islay off the west coast and 10-year old Talisker from the Isle of Skye, joined by Cragganmore, Glenkinchie, Dalwhinnie and Oban malts.

The approach taken by United Distillers in the US market is mirrored elsewhere in the world. There was once a philosophy that you just loaded spirits on a ship and waited for the cheque to come back. Now by controlling distribution, United Distillers is more in control of its own destiny.

...ries often lie in beautiful and remote countryside, allowing visitors to capture the true flavor of Scotland

Oak casks require the age old skill of coopers.

A significant market is Japan. A year ago the company had no one working for its distribution there. Now, including its joint venture with Moet-Hennessy there are 400. It is the highest commitment to the Japanese market of any British company in the field of consumer goods in the last 20 years.

A joint venture has been set up with Moet-Hennessy and Jardines, who distribute White Horse, the number one Scotch in Japan and I.W. Harper, the number one Bourbon there. In addition a new, wholly-owned United Distillers subsidiary, Yoshu Hanbai, has been formed to distribute Johnnie Walker and Old Parr which is the best selling deluxe Scotch whiskey in Japan.

United Distillers' strategy has its sights on improving market share. This is a company which, while operating globally across the continents, has the skills to adapt to local market conditions in each country and keep close to local consumer needs. There is a saying at United Distillers: "Think global, act local."

In the reorganization five profit-responsible world regions have been set up by United Distillers: Europe, North America, Asia Pacific, International and Duty Free. They handle the sale of 40 million cases of spirits each year, two thirds of which is accounted by Scotch.

Worldwide the group employs 9,000 people with more than half in Scotland where it has 29 malt distilleries, three grain distilleries, six bottling plants and its new International Export Center in Glasgow.

The consumers' interest in buying better Scotch has helped make Guinness, the parent group of United Distillers, the most successful in terms of operating profits of all the world's spirits companies. United Distillers has become a pace-setter for the entire industry, establishing the lead in management style, assertive marketing and a genuinely global approach.

It is good to know that the world's largest producer of Scotch is right behind the growing search for quality.

Out of Scotland has come a quality you can taste every time you open a bottle of Dewar's or Cardhu. But why not come and see the craft that is behind it? Come and talk to Evan Cattanach in the valley of the Spey and complete your voyage of discovery into Scotch.

In the past twenty years, Geoff Billingham has raised more champion Scottish Border Collies than you can shake a crook at.
But more than winning, what he really enjoys is teaching a new dog the old tricks.
The good things in life stay that way.
DEWAR'S White Label
Authentic
Top dogs in their field
"White Label"
DEWAR'S
BLENDED SCOTCH WHISKY
100% SCOTCH WHISKIES
PRODUCT OF SCOTLAND
BLENDED AND BOTTLED IN SCOTLAND
John Dewar & Sons Ltd
PERTH
SCOTLAND
750 ml
(25.4 FL OZ.)
86.8° PROOF

Electronics

SCOTLAND
YOUR ACCESS TO EUROPE

August will be a milestone for Compaq Computer in Europe. The second phase of its $30 million Scottish factory opens to double production of its high-selling 286 and 386 models for export to Europe, Africa, the Middle and Far East and Australia.

That development takes place just 10 months after the factory's first product rolled off the line on a greenfield site overlooking the Clyde, 20 miles outside Glasgow, and 21 months after Compaq's decision to locate its first overseas manufacturing facility in Scotland.

"Our expectations for this project have been far exceeded", says Murray Francois, the plant's Louisiana-born general manager. "Construction went as planned, while on productivity and quality we are ahead of my projections and already on a par with our main plant at Houston."

The winning of Compaq, against intense competition from the rest of the EC, was a triumph for Locate in Scotland, the organization responsible for attracting outside investment to Scotland. Headquartered in Glasgow, it operates mainly through four US offices and has won high praise from US industry for its closely targeted marketing approach.

"The jewel in our crown" is how Howard Moody, director of LIS's North American operations, describes the Compaq project.

Compaq's Francois: Scots plant ahead of targets already

The knowledge that America's fastest-growing computer company, with a reputation for rigorous cost-control and formidable strategic planning, had plumped for Scotland highlighted the fact that the Scots have won the lion's share of US electronics investment in Europe. The Japanese are not far behind: NEC's million megabit chip is being made for the world market at its Livingston factory in Central Scotland, while JVC recently opened a $210 million consumer electronics plant at East Kilbride.

"If you are in electronics and you are

It's our ball game.

If you want to make a pitch anywhere, we're happy to offer our services. We have been leaders in banking since 1695 with many firsts to our credit.

Today we're still in the van of progress with particular experience and expertise in energy and corporate finance. With TAPS, our Transcontinental Automated Payment Service you can now transfer funds across continents simply, quickly and cheaply. TAPS is proving invaluable to pension fund managers, multi-nationals and Government departments.

Our contact in New York is H. H. McHattie, Executive Vice President, Bank of Scotland, 380 Madison Avenue. Tel: 212 490 8030. Telex: 645588.

BANK OF SCOTLAND
A FRIEND FOR LIFE
INTERNATIONAL DIVISION

EDINBURGH · GLASGOW · LONDON · NEW YORK · HOUSTON
LOS ANGELES · CHICAGO · JACKSONVILLE · MOSCOW · HONG KONG

looking to expand into Europe, Scotland has to come top of the money because of our location, manufacturing base and skilled workforce," says Moody.

The Scots undoubted success in capturing a significant slice of mobile international investment in the European Community has given this northern part of the UK a prominence in world manufacturing terms that, ironically, tends to go unrecognized at home.

It has long been a center for the computer industry. IBM has been in Scotland for 40 years and manufactures its PCs there; Digital Equipment has greatly expanded its plants, making mini-computers, Hewlett Packard, Honeywell, Unisys, the leading UK-company Apricot, chip makers like National Semi, Motorola and General Instrument are all represented, as are the hard disk makers Rodime (a Scottish company which has expanded the other way, opening a plant in Florida) and Seagate Technologies.

But before them all Scotland had its own electronics industry, with companies such as Ferranti and Marconi, leaders in specialist space and defense work. As the critical mass of electronics investment in Scotland has grown, so they have prospered with it.

Ian Lang, Industry Minister, and Howard Moody, SDA Director in North America, visiting BB&N Laboratories in Cambridge, Massachusetts. BB&N have established a research facility on the Heriot Watt University campus, just outside Edinburgh.

ESTABLISHED 1876

THE FINE ART SOCIETY PLC

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12 GREAT KING STREET, EDINBURGH EH3 6QL 031 556 0305
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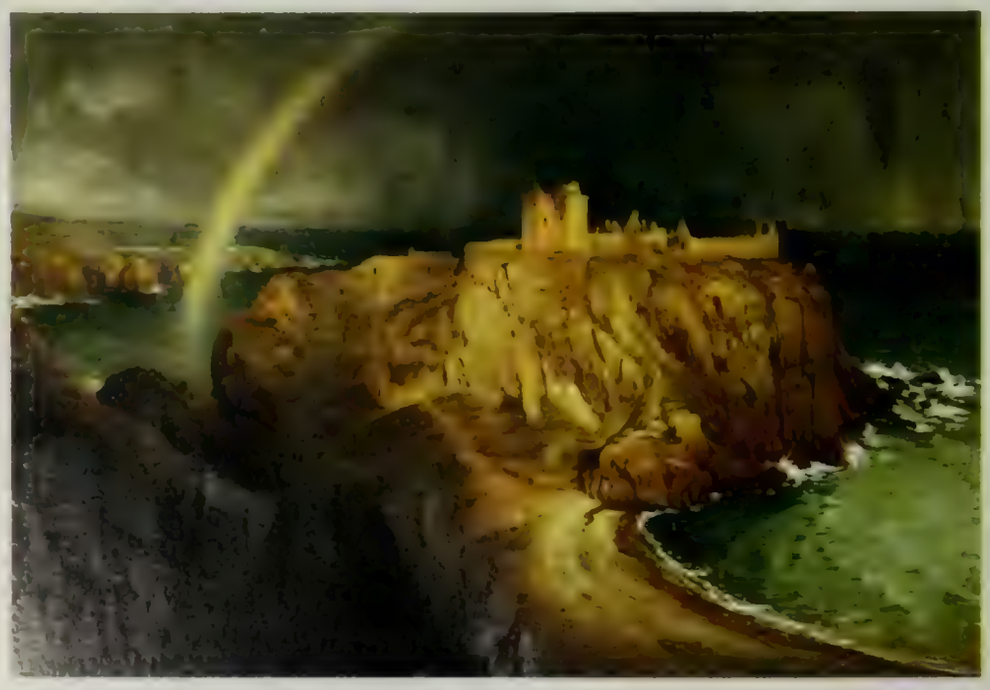

Specialists in Scottish Art

WALLER HUGH PATON RSA RSW
1828-1895
Dunnottar Castle, 1867
Oil on canvas 24 x 37 (61 x 94)
Signed and dated (bl)
Exh: Edinburgh, Royal Scottish Academy 1867 (663)

"MY LIFE AND TIMES IN SCOTLAND."

(By the COMPAQ 386.)

June 27, 1986	Senior COMPAQ executives assess a number of European locations for COMPAQ's first European manufacturing plant offshore.
October 30, 1986	COMPAQ decide to locate their first European manufacturing plant in Scotland.
November 30, 1986	COMPAQ formally announce their intentions of manufacturing in Scotland.
December 6, 1986	Building design approved and contractor announced.
December 19, 1986	Deal for the purchase of prestigious high amenity site concluded.
January 14, 1987	Planning permit granted.
February 2, 1987	Earth work begins on site.
March 13, 1987	Ground breaking ceremony.
September 26, 1987	COMPAQ decide to proceed with Phase 2 project.
December 7, 1987	First 135,000 square feet of space completed.
December 26, 1987	First COMPAQ computer shipped.
December 31, 1987	COMPAQ passes billion dollar annual sales.
March 7, 1988	Unofficial opening of Erskine plant.

LOCATE IN SCOTLAND.

THE CENTRE OF EUROPEAN ACHIEVEMENT.

Scottish Development Agency

IN SCOTLAND WE APPRECIATE THAT FAST-TRACK COMPANIES NEED FAST-TRACK TREATMENT. THAT'S WHY COMPAQ FOUND SCOTLAND SO COMPATIBLE. IF YOU ARE CONSIDERING AN OFFSHORE FACILITY IN EUROPE, TALK TO HOWARD MOODY, DIRECTOR NORTH AMERICA, BY CALLING TOLL FREE 1-800 THE SCOT, OR SEND YOUR BUSINESS CARD TO 1 LANDMARK SQUARE, SUITE 810, STAMFORD, CONNECTICUT 06901.

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Scotland's largest city finds new life

Less than two decades ago Glasgow was thought of by most outsiders as Siberia in a kilt. Even Glaswegians were reluctant to admit where they came from. Not any more. Now the world beats a path to the one-time second city of the British empire that went into a near fatal decline after the 1939-45 war. Natives of the city who fled to greener pastures over the decades come back to be amazed at what's been happening.

For a start the famous city on the banks of the river Clyde, where they built the world's great ocean liners and steam locomotives, is now the commercial and investment capital of Scotland.

Who says? John Davidson, Director of the Confederation of British Industry in Scotland for one, and Ewan Marwick, chief executive of the local chamber of commerce for another, neither of whom would swim the Clyde in a tuxedo for the city's Labor administration, which is not slow to noise abroad its part in the regeneration of the city.

Says Davidson, "Glasgow is one of Europe's most exciting cities and a leading financial and investment center." Marwick says, "Glasgow is a good place to be just now and will be for at least the next 10 years."

Exactly why is more difficult to explain. John Davidson: "It has a lot to do with the spirit of enterprise that pervades the life of the city."

SCOTLAND
YOUR ACCESS TO EUROPE

Current investment in major new property developments in Glasgow is running at about $2.6 billion, in addition to the $316 million worth of developments completed during 1986-87.

Encouraged and often propped up by the city council the cash is flowing from public and private sector purses and is helping to improve the standard and choice of private housing, offices, shopping, leisure, tourism and cultural locations, hotel,industrial, and commercial properties.

The biggest investment in the past decade has been the $900 million Glasgow Eastern Area Renewal (GEAR) programme in the East End of the city, the biggest inner city regeneration project in Western Europe.

In sharp contrast to the atmosphere of conflict in many British cities, Glasgow's business leaders work closely with the civic authorities and the Scottish Development Agency through a unique organisation called Glasgow Action to encourage investment in the city.

An indication of Glasgow's importance in the business world may be the presence of the only American Chamber of Commerce in the UK outside London. The city also houses the headquarters of the Scottish Development Agency, the Clydesdale Bank, the Scottish Trades Union Congress, Britoil, Scottish Stock Exchange, Scottish Amicable Life Assurance Society, the Scottish Mutual Assurance Society, the Scottish office of the Confederation of British Industry, American Consulting Engineers, as well as branch offices of every major insurance company in Britain and branches of the Banks of Nova Scotia, China, Pakistan and Ireland.

New housing in Glasgow

How to sink or swim in the Scottish Market.

Kilchurn Castle, Argyll. Courtesy of Highlands and Islands Development Board.

Tactical guile, resourceful colleagues and excellent products; they will sink without trace if you don't ally them with advertising in Scotland's best-selling quality morning newspaper.

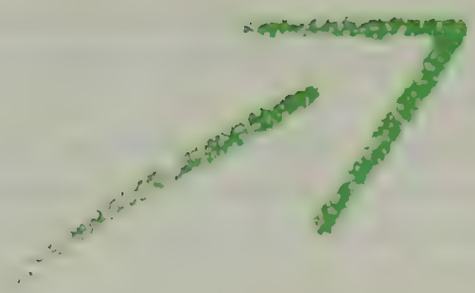
All over Scotland, the Glasgow Herald is bought for its authority, wit and breadth of reporting. It's unrivalled business and finance pages include the country's most up-to-date Stock Market data. The Herald's circulation stands at 119,130. The nearest competitor, The Scotsman, has a circulation of only 90,924. And now investments of £22.5m are bringing full colour presses to Scotland's leading quality daily.

The Herald's success has its foundations in Scotland's largest city, Glasgow, which dominates the country's industrial heartland. Glasgow has also won the coveted role of European City of Culture for 1990.

GLASGOW HERALD

For your biggest break yet, contact Ken Robb, Advertisement Manager, Glasgow Herald, 195 Albion Street, Glasgow, Scotland G1 1QP. Telephone 011 44 41 552 6255. Telex: 779818.

All figures ABC certified July-December 1987.



Grampian's Going Places

Grampian is the part of Scotland that juts out into the North Sea like the shoulder of a lineman on the Washington Redskins.

There is strength, drive and determination about the region; brawn in its powerful array of natural resources, mighty beauty and industrial muscle; brain in a resourceful, worldly, confident people. Grampian is going places.

One of the most prosperous parts of Britain, Grampian has a growth rate ahead of most of the rest of the country and ranks among the most productive regions in the European Community.

A great place for a visit, a better place to do business and a place to live that is hard to beat: the facts speak for themselves.

Grampian, and its main center Aberdeen, are the land base for the offshore oil and gas development in the North Sea, a dynamic industry that has brought energy self-sufficiency to the United Kingdom.

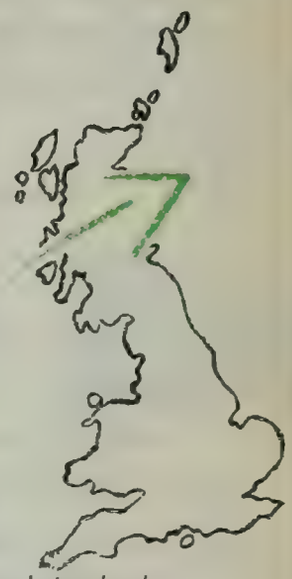
Forbes has a special connection with Grampian. B.C. Forbes, a journalist and the founder of the magazine, emigrated to the United States from Grampian in 1904. He died in 1954 in The States and was reinterred next to his grandparents in the town of New Deer in Grampian earlier in 1988. The Forbes family retain an active involvement with Grampian.

But oil is only part of the story. More than half the malt whisky made in Scotland comes from Grampian, approaching 20 per cent of UK paper is Grampian-made, about a third of all the UK's fish is landed here. The region is the Granary of Scotland with a thriving agriculture and the fame of Aberdeen Angus cattle point to a tradition in livestock, poultry and game. A healthy textile industry boasts strong export orders around the globe.

Consider the international outlook, the innovation of its people, the diversity of its industry as well as the quality of life and the balance of Grampian's economic picture becomes clear.

Grampian might appear out on a limb on the upper right hand corner of Britain. The flying time to Aberdeen from London is the same as from London to Frankfurt in West Germany. The outer tendrils of conurbations in the populous south interweave and overlap but most of Grampian's half a million people cluster along its coastline.

Grampians have turned geography to their advantage. It has made them international in their outlook and self-sufficient in their nature. The global perspective of the offshore oil business fits in readily among Grampians who have for centuries been trading with the world in ideas and produce. Grampian grain is regularly shipped to the Soviet Union and Aberdeen University has been one of northern Europe's chief centers of learning.



A strong streak of innovation also characterises the Grampians. New offshore technology for the harsh environment of the North Sea has been designed and produced here. New businesses are constantly being born, up over 13 per cent since 1976.

The diversity of Grampian is in the wealth plus the scope of its resources and the breadth of vision of Grampians. There are huge areas of forest, a wide array of food produce imaginatively prepared and packaged, a respected variety of practical and theoretical academic research projects. Professional contacts overseas reach across a broad spectrum of disciplines.

The quality of life makes it all worth while. Here is some of Scotland's loveliest scenery: the mountains of the Cairngorms, the miles of uncluttered beaches, pretty fishing villages, towns blooming with flowers. Balmoral castle by the banks of the Dee is the summer holiday home of Britain's royal family. For tourists

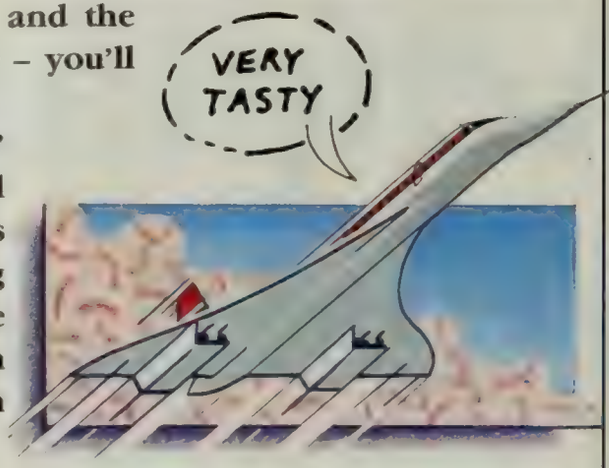
Grampian's Going Places

You can't get higher than Moray quality. In markets throughout the world, Moray Seafoods are renowned as suppliers of superb quality seafood from Scotland.

From catching, to processing and distribution, Moray Seafoods maintain tight control ensuring that you get what you would expect from one of Europe's largest suppliers of seafood – outstanding quality and lots of it!

In chic Parisienne cafes; Italian tavernas; Madrid's fashionable restaurants – and the dizzy heights of Concorde – you'll find Moray seafood.

In 'Red Lobster Inns' throughout the USA you'll also find Moray Seafoods products through our long association in supplying the General Mills Corporation Restaurant Group with high quality seafood.



Scampi in the sky. The seafood served on all British Airways long-haul flights, including Concorde, comes from Moray Seafoods of Buckie. Moray Seafoods is the only processor of indigenous Scottish prawns in the UK.

For details of our captivating tastes from Scotland contact:
Moray Seafoods, 9 Low Street,
Buckie, Grampian
GRAMPIAN INITIATIVE BUSINESS AWARD WINNER 1988

This family owned business in Fochabers started over 100 years ago making jams and jellies. Since then it has developed its world famous range of quality soups, Scottish specialities and most recently its small 1½oz jars of jams and jellies for the quality hotel and catering trade.

Quality is the cornerstone of the Baxter philosophy and every opportunity is taken to make use of the fine game, fish and vegetable raw materials found in abundance in the surrounding beautiful and fertile countryside.

In the United States, soups like Royal Game, Lobster and Scotch Leek are growing yearly in popularity whilst the mini jars of jams and jellies grace many a breakfast table in some of the finest hotels.

Baxters of Speyside Ltd, Fochabers, Grampian IV32 7LD

Grampian is one of the most castle-intensive areas of Britain. Above all there is clean open space to live and grow.

Two years ago the fall in the price of oil suddenly seemed to cast a shadow over Grampian. The explosive development of oil during the seventies generated a vast infrastructure of supporting – and dependent – service industries.

Oil brought a new momentum to the prosperity of the region. But unlike the oil sectors elsewhere in the world, Britain's oil industry had yet to encounter volatile oil prices. It was not prepared for what hit it.

Suddenly prosperity seemed in jeopardy. Jobs were lost as oil exploration programmes were drastically cut back. Employment in this sector rose from 11,500 in 1976 to 52,000 in 1985. It dropped to 40,000 in 1986.

The Oil Boom continues .... 38 oil and gas fields are currently in production in the northern North Sea – over the next 25 years it is likely that some 60 additional fields will be developed.

Today the outlook is bright once again. More stability in the price of oil has seen a return to exploration and development. At the start of this year 44 oil and gas fields were in production or under development and managed from Grampian. Over the next 25 years an additional 60 more oil and gas fields in the northern north sea are likely to start production.

The industry has emerged with new confidence and a new focus: to develop more cost-effective methods of oil and gas extraction. It is a challenge taken up readily by Europe's oil capital.

The new outlook for oil has one further and important impact on Grampian. It has integrated this vibrant industry more effectively into the regional economy. Through the end of the century energy will remain a key industry but its objectives are now more in line with those of Grampian's other industrial sections.

Oil is today less exception and more integral to the economy of the northeast. Its

Grampian's Going Places

The Department of Obstetrics, Gynaecology and Physiology at the University of Aberdeen, have developed a unique technique of studying in the laboratory, ways of transferring substances such as drugs from the pregnant mother to the unborn child through the placenta.

renewed confidence is easier to share with other areas from fishing and agriculture through textiles paper and Scotch whisky.

The more integrated oil is with the rest of industry, the greater the cross-fertilisation of ideas. Sub-sea equipment developed for oil extraction holds possibilities for applications in other areas. Similarly the sub-sea and even conditions in outer space can be simulated at the National Hyperbaric Center in Aberdeen to assist in the testing of a wide range of equipment and operators in extreme conditions.

Grampian's food industry is also worth watching. Many of its products already sell to markets where quality is becoming increasingly important among people ready to pay for it. Scotch malt whisky, soups and confectioneries from the region are well established in these markets. Other companies will follow.

A magnificent road today whisks the tourist straight north from Edinburgh through the Highlands to Inverness. The great shoulder to the east often lies unexplored by the visitor. Yet here is spectacular scenery, a wealth of sports activities including half the ski-resorts in Britain, enviable fishing and 134 miles of golfing fairway. The oil industry has realized the international

Grampian is Scotland's granary with more land under oats, wheat and barley both singly and collectively than any other Region in Scotland.

The Aberdeen based **Balmoral Group** have for many years been involved in the design and manufacture of glass reinforced plastic and elastomer products. These range from totally enclosed survival craft to navigation buoys and modular building systems.

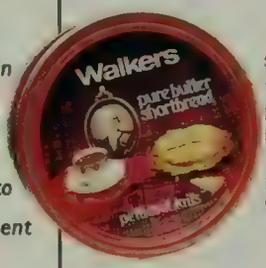
One of twelve buoyancy units for Placid Oil Company's Green Canyon Project. (Photograph courtesy of The Placid Oil Company and R.J. Brown)

To meet the increasing demands for both surface and subsurface buoyancy, Balmoral have, in recent years, developed an extensive range of syntactic foams. These meet the most varied requirements in the buoyancy field, and are capable of operating at depths down to 10,000 metres.

These products are exported throughout the world. Particular success has been achieved in the US market, where many major contracts have been won.

A creative and innovative Group, Balmoral's total operation is led by a dynamic management team, supported by a flexible and committed workforce.

Balmoral Group Ltd, Hareness Road, Altens Industrial Estate, Aberdeen, Grampian AB1 4LE



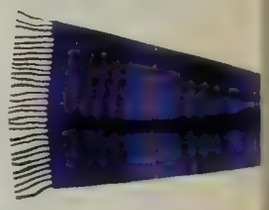
Sold in the top stores worldwide, Walkers Shortbread is produced in the picturesque village of Aberlour, right in the heart of the Grampian Highlands. Walkers Shortbread is produced with pure butter, using only the finest ingredients and to the same traditional recipe used at the turn of the century. Flavourings, colourings and additives are never used.

This consistent quality – combined with attractive gift, consumer and snack packs – is what makes Walkers Shortbread the most sought-after shortbread, the world over.

Walkers Shortbread Ltd, Aberlour on Spey, Grampian AB3 9PB

For 200 years Johnstons of Elgin have been dyeing, blending, spinning and weaving fine woollen cloths from cashmere, lambswool and other luxury fibres. The Johnston knitwear, cloth and scarf collection is exported all over the world, and especially to America where it is acknowledged as the market leader in design, colour and quality.

James Johnston & Co of Elgin Ltd, Newmill, Elgin, Grampian IV30 2AF



Morse Tool Inc. was the product of one man's idea. The man was Stephen A Morse. The idea was the twist drill.

Over a century ago, Stephen Morse obtained a patent and set up shop in Massachusetts. The results of his invention are used throughout industry today. The company he formed is a leader in the design and manufacture of metal cutting tools.

In 1987, International Twist Drill Ltd – a Scottish-based leader in the European cutting tool industry – acquired Morse Tool Inc.

The resulting company brought together the highly-developed management skills of International Twist Drill with the engineering and marketing expertise of Morse Tool. The result? A design-led company with permanent teams of engineers and metallurgists working on the development and testing of new configurations and new materials. We are sure Stephen Morse would approve.

International Twist Drill Ltd, Station Road, Peterhead, Grampian AB4 6SR

Grampian's Going Places

Why is The Macallan the fastest growing prestigious Single Malt Scotch? Is it because it is distilled in the heart of Speyside in the cool, clear Grampian air? Is it because it is even now distilled in small direct fired copper pots just as it was at the beginning of the eighteenth century? Is it because it is the only Scotch exclusively matured in oak casks which previously contained sherry?

Whatever the reasons, more and more connoisseurs seek its smooth flavoursome palate, confirming its reputation as "The single malt against which ultimately all others must be judged."

Macallan-Glenlivet plc, Macallan Distillery, Craigellachie, Grampian

Aberdeen. The Silver City, Capital of Grampian, Oil Capital of Europe.

In a recent survey, Aberdeen was ranked as the most prosperous city in the UK outside the South East of England. It was also rated the second most desirable city in the UK.

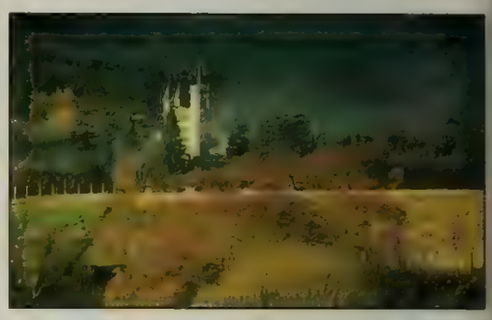
We've proved that we've never been short of Initiative. When oil was first discovered off our shores, we welcomed the challenge whole-heartedly. We saw what had to be done and did it.

We've invested in the future because we believe in the future. And our confidence has already paid off. The signs all point to an even brighter economic future for Aberdeen. We stand at the threshold of a £2000 million market, which, it is predicted, will expand to £3000 million by the 1990's. Our people are ready for it.

We live in an environment which breeds a positive attitude towards change, which produced a special type of character – canny and resilient, but also open-minded and open-hearted.

Aberdeen was the first city outside London to have Cable TV. So successful has it been that cables are currently being laid in the city centre to bring the service to shops, pubs and nightclubs.

interest in their achievements and a £20m Oil Experience Center is planned as a tourist-pulling attraction for Aberdeen.



Grampian has the largest concentration of castles in the UK – and the only Castle Trail, naturally.

These are among a file full of opportunities which the Grampian Initiative aims to develop in the years ahead. The Initiative is formed from both the District and Regional governments. It spans political parties and has an active partnership with private sector industry in Grampian to encourage further development.

It is success that will breed success in Grampian and it is the individual stories of accomplishment that will bring people in to see for themselves.

Considering the export of its people around the world over many generations "It is time for Grampian's grandchildren to be briefed on what has happened. They will make our best agents," says John Liddell, Deputy Chief Executive of Grampian Region and Project Leader of Grampian Initiative.

"They can report on the new confidence that is afoot throughout all sectors of Grampian's economy."

This feature on Grampian was produced by the Grampian Initiative and was sponsored by the companies featured and Aberdeen City Council.

If you would like to know more about Grampian, Aberdeen, or any of the individual companies in this feature, please contact:

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Glasgow's Festivals

Running now, until the end of September, is Glasgow Garden Festival, a $90 million extravaganza designed, among other things, to put Glasgow firmly on the world's tourism map. So far the city is not doing badly. About 2,400,000 people now visit Glasgow and its immediate environs a year compared with 700,000 in 1982.

Up to four million people are expected to visit the 120-acre garden festival site on the south bank of the Clyde during the five-month run of the festival, which ends on September 26. Among the countries taking part are the United States, Australia, Belgium, Canada, China, Denmark, France, Germany, Greece, India, Ireland, Israel, Italy, Japan, Mexico, Holland, New Zealand, Pakistan, Norway, Spain, Trinidad, and Russia.

The festival, opened by the Prince and Princess of Wales on April 19, is being billed as "Britain's biggest consumer event of 1988." It is being compared with the Empire Exhibition in Glasgow half a century ago when Britain had an empire. At that time 12,693,232 visitors from all over the world went to Bellahouston Park between May 3 and October 29, 1938.

The festival site is linked by a new covered and illuminated swing bridge to the $64.8 million Scottish Exhibition and Conference Center opened by the Queen in 1985 on the other side of the river. The 400-feet bridge is the first

SCOTLAND
YOUR ACCESS TO EUROPE

pedestrian link to be built across the Clyde in central Glasgow for 130 years. Among the benefits of the festival to the city in the longer term include a vastly improved environment on the festival site, a 16-acre business park with a potential 1000 new jobs, two prestige housing developments, and an 11-acre public park, giving Glasgow a total of 72 parks, many of them the envy of the rest of Britain.

Running concurrently with the garden festival is Glasgow City Festival in which 900 performances range from opera and classical music concerts to children's projects and street events.

Phase one of a new shopping and leisure complex.

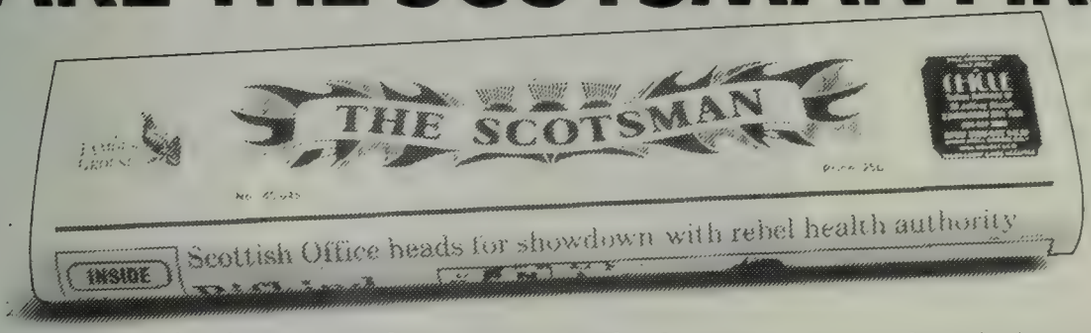
Glaswegians are crowing about one event that even London couldn't put on, Peter Brook's production of "The Mahabharata: The Epic Story of Mankind," publicized with characteristic Glaswegian modesty as "one of the most sought after productions in world theatre."

But for sheer chutzpa you have to hand it to Glasgow for applying a couple of years ago for the title of European City of Culture. And they got it, too, much to the chagrin of eight other cities in Britain, including Edinburgh, 45 miles from Glasgow, which hosts the annual Edinburgh International Festival, the 42nd of which will be held in August. To the delight of Glaswegians their Edinburgh neighbors have bought more than 3,000 season tickets for the garden festival.

The culture title, which it takes over in 1990, was bestowed on Glasgow by the Ministers of Culture of the 12 member states of the European Community (EC) at a meeting in Brussels in November 1986. Glasgow will follow Athens, Florence, Amsterdam, Berlin, and Paris as holders of the title.

The writers:
RAY PERMAN is publisher of the magazine Scottish Business Insider.
ALASTAIR BALFOUR is editor of Scottish Business Insider.
MARK MEREDITH is a freelance writer specializing in business and industry.
HARRY DIAMOND is head of public relations for the City of Glasgow.

DECISION MAKERS IN SCOTLAND TAKE THE SCOTSMAN FIRST.



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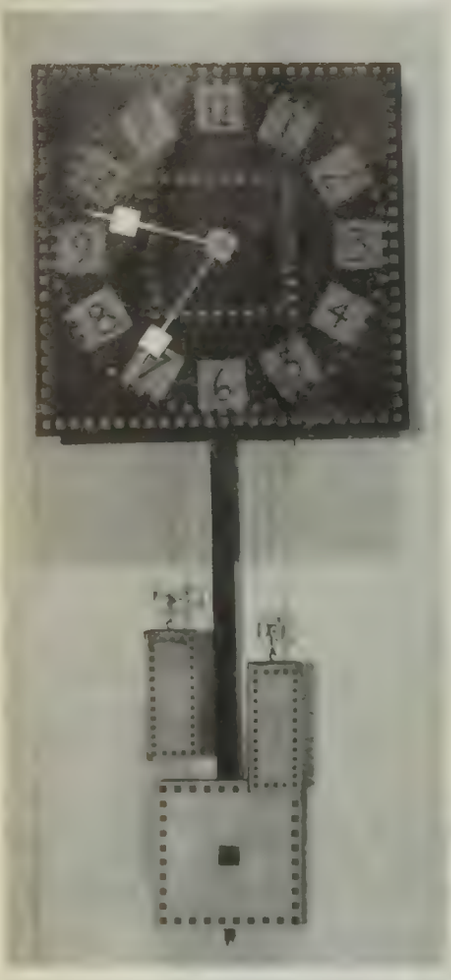

Wall clock (wag at the wall) designed by Charles Rennie Mackintosh, Glasgow 1910

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SCOTLAND
YOUR ACCESS TO EUROPE

Scottish tourism puts the stress on quality and variety

This year close to half-a-million Americans will holiday in Scotland, the largest single group of overseas tourists to visit the country.

They will come direct by air, landing at Prestwick airport in Ayrshire on the Scottish west coast; up from England on package tours; or fly in from Europe as part of a multi-center holiday.

Scotland has always had a strong pull for holidaying Americans. Many are of Scots ancestry and come to see the land of their forebears. Others are drawn by the traditional images of romantic mountains and glens, heather and haggis.

Yet tourism in Scotland is changing dramatically as the country realizes that one of its biggest industries, providing employment for over 100,000 and bringing in over $3 billion in earnings each year, will not continue to grow unless standards of accommodation and entertainment continue to rise. Thus while castles, lochs and history are still being marketed, the emphasis is being switched to activity-based holidays and quality.

Fishing, shooting, skiing, sailing and a host of other outdoor leisure pursuits are being packaged, often in partnership with major airlines and hotel groups. Some big names are being enlisted in the process; at Gleneagles Hotel, Captain Mark Phillips, husband of the Princess Royal, has opened an equestrian center, Jackie Stewart, one-time world motor racing champion, runs a shooting school, and Virginia Wade, former Wimbledon Ladies Tennis Champion, leads a summer tennis program.

The business market for conferences and incentive breaks is also being tapped, with many hotels adding conference facilities to their public function rooms and the construction of the Scottish Exhibition and Conference Center in Glasgow and a similar facility planned for Edinburgh.

Standards in Scottish hotels have soared upwards in recent years as a result of sustained heavy investment, partly funded by government agencies. Eating in restaurants – not a traditional Scottish habit despite the abundance of good, fresh food – has now become a particular pleasure.

The great cities of Glasgow, Dundee, Perth and Aberdeen are being featured more strongly on the Scottish tourism map and have joined the capital city of Edinburgh as alternative destinations to the fame of the Highlands.

Yet there is much left to be done to attract more tourists from North America. Some 90% of US visitors to the United Kingdom fly into London and more than half of those never leave the English capital during their stay in Britain. The marketing opportunity facing the Scottish tourist industry is to persuade more of them to venture north.■

The Princess Royal at the opening of the Gleneagles Mark Phillips Equestrian Center at Gleneagles Hotel, Perthshire

The Burrell Collection.

"Glasgow leads from the front in matters artistic."

Her Majesty the Queen.

"In Glasgow there has always been a special partnership between the civic and private sectors."

Lord Provost, Mrs Susan Baird.

"Glasgow, you really do Smile Better now! You have become the torch bearer; set the standards which are now widely admired and must be followed elsewhere in the UK."

Sir David Nickson, President of the Confederation of British Industry. (1986-1988).

1990

IS HERE TODAY

Glasgow 1990. Cultural Capital of Europe.

The title was unanimously conferred by all the Ministers of Culture of the Member States of the European Economic Community.

The award didn't come our way for what we'll be in eighteen months time, but for what Glasgow is today: a city undergoing a renaissance through commerce, the Arts and the restoration of its magnificent Victorian architecture.

The corporate culture pervading Glasgow's business community is one of enterprise and growth. The city is attracting increasing corporate investment on a regional, national and international level.

Glasgow is home to the Scottish National Orchestra, Scottish Opera, Scottish Ballet and the finest civic art collection outside London.

It has hosted conferences involving up to 10,000 delegates, including the Baptist Youth World Congress, and its location makes it the perfect centre for incentive travel.

Most of all, Glasgow is a city with a vitality based on co-operative enterprise and a desire to work for the future.

GLASGOW'S CULTURE.

IT'S FOR EVERYONE.

GLASGOW 1990
CULTURAL CAPITAL OF EUROPE

Unisys, formerly Sperry and Burroughs, has a tough road ahead, but it at least set out smartly, with a clear sense of direction.

The power of two years

By Robert T. Grieves

IT'S NEARLY TWO YEARS since Burroughs acquired Sperry to form Unisys Corp., the third-largest computer maker in the U.S. If that's too short a time to crow, it's long enough to permit a sigh of relief. Unisys, under Chairman W. Michael Blumenthal, 62, is now lean, beginning to prosper and has a clear sense of where the company is going. Problems ahead there are in plenty, but, as a psychoanalyst might put it, all Blumenthal's worries are "appropriate."

Since September of 1986, when Burroughs bought Sperry for $4.8 billion in cash, notes and stock, Blumenthal has slashed more than $300 million from 1987 overhead, in part by shedding 5,000 of the combined companies' 121,000 employees through discharges and attrition. He has also cut his long-term debt to a manageable $2.1 billion, 32% of total capital. He did it by selling off $1.8 billion worth of unwanted divisions, such as Sperry Aerospace (flight controls) and the marketing operations of Burroughs' Memorex (disk drives and other peripherals). These divestments reduced Unisys' work force by another 19,000.

On the strength of these factors, and with revenues of $9.7 billion in 1987, Unisys has shown strong earnings growth for five straight quarters. Analysts expect the company to report earnings per share of at least $3.50 in 1988, up 19% from last year. That would mean total net earnings this year of some $700 million on sales of over $10 billion.

The sense of direction Unisys now has signals a decisive coming to terms with the facts of life in today's computer business. The mainframe market, the strength of the old companies, is growing at only 8% a year. Sales of personal, micro- and minicomputers, meanwhile, are up 15%, and the market for software packages and service is jumping by 25%.

Blumenthal's response: Develop add-ons and updates for Unisys' installed customer base of 60,000, but, at the same time, position Unisys to go where the growth is. Instead of flogging its own hardware exclusively, Unisys is eager to combine anyone's machines, including its own, into networks, especially in the market encompassing the world of personal, micro- and minicomputers. Thus, for example, Hongkong Bank is buying some $50 million worth of Unisys networks and hooking them to its IBM mainframes to double the power of its computers.

Geoffrey Biddle

Unisys Chairman W. Michael Blumenthal
All his worries are appropriate.

Unisys, moreover, has staked much of its future growth on the Unix operating system developed by AT&T. Unisys sold more than $500 million in Unix-based workstations in 1987 and expects to sell $800 million worth this year, and a good deal more than that in the future. Says Blumenthal: "Until Unix, IBM was the standard. Unix represents a window of opportunity and we are jumping through it."

Unisys' sales force of 7,500 worldwide, in short, is waging a two-front war—holding the hands of past Sperry and Burroughs customers and simultaneously courting managers of information systems for new business. Wherever they go, of course, they will run into heavyweight competitors. In a survey conducted in February by the Boston-based Yankee Group, for example, Unisys' products ranked well behind those of IBM and Digital Equipment Corp. in a list of systems managers' favorite computer products. Concluded the survey: "Obviously, Unisys still has much work to do to convince [systems] managers that they should consider purchasing from it in the future."

Unisys' growth efforts may be complicated by the fact that Unix users are now split into two camps, with IBM, DEC, Hewlett-Packard and other hardware companies developing one version, and AT&T supporting the other. Reason for the split: AT&T had originally developed Unix as an "open" system that could be used by anyone. But IBM, DEC and the others now fear that failure to develop their own version of Unix could wind up making them dependent on AT&T, since the telecommunications giant decided to develop a new, proprietary program with Sun Microsystems.

The split could mean delay in developing new software applications based on Unix. It will obviously add to customer wariness. Where does that leave Unisys? "We will support both versions of the system," says Hollis Caswell, head of Unisys' research and development effort. That could cost Unisys some $5 million or more, Caswell adds, depending on how long the problem remains unresolved.

But that, at least, is an appropriate problem. If Unisys has a tough road ahead, say this for Blumenthal: By choosing to serve needs rather than sell hardware, he has set out smartly with a clear sense of direction. ■

William E. Simon

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Insight
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Talk to the powers that be.

Your average Joe.

IMC cut back its core business and diversified. How has it done? Better not to ask.

Running fast to stand still

Gary Sigman

George Kennedy, chairman of International Minerals & Chemical Corp.
"We are not participating in the full value of the fertilizer recovery."

By Charles Siler

NEED ANOTHER EXAMPLE of foolish diversification? Look no further than Northbrook, Ill.-based $1.6 billion (sales) International Minerals & Chemical Corp. For 79 years it was a big miner of phosphate and potash, the most basic and widely used fertilizers.

In January IMC, in part to pay for a diversification program, sold 52% of its fertilizer business to the public, raising $606 million, much of it used to repay debt and repurchase shares.

You couldn't ask for a more spectacular example of bad timing. IMC had cut its holdings in its core business just as that business was turning around. Result: The company's earnings for the nine-month period ended Mar. 31 were $96 million, or $3.11 per share. But had the company retained full ownership of its fertilizer business, its profits would have been more than $136 million.

It's a lesson not lost on dismayed investors. Trading around 47, down 8% from its postcrash high of 51, IMC stock this year is underperforming the S&P 400 by a substantial margin. This at a time when most companies in related businesses are just a bit shy of the S&P performance. That's partly because some shareholders sold IMC stock and instead bought shares of the new IMC Fertilizer Group Inc., issued at 22 and now trading around 38.

"Obviously, we are not participating to a full extent in the full value of the fertilizer recovery," concedes George Kennedy, 62, chairman and chief executive officer. Since 1983, when he took over, Kennedy has transformed IMC from a solid producer of commodity products into a company with interests in medical products, advanced animal drugs, flavorings and fragrances.

Under Kennedy IMC has been buying and selling divisions as if it were a portfolio manager rather than an operating business. In 1986 he sold the company's oil and gas operations and the industrial division, which produced such substances as petroleum coke, clay and quartz. The sales resulted in writeoffs of $117 million.

In their place, Kennedy purchased Mallinckrodt Inc. of St. Louis that year for $713 million. The company makes such items as catheters, morphine, shampoo fragrances and acetaminophen, the painkiller. And last year he bought Johnson & Johnson's animal health business, Pittman-Moore Inc.

What's the sense of all this trading? Kennedy says Mallinckrodt's diverse mix of businesses should grow faster and more consistently than fertilizer. "The problem was the agricultural environment got so much riskier in the 1980s than anything we had known before," he says.

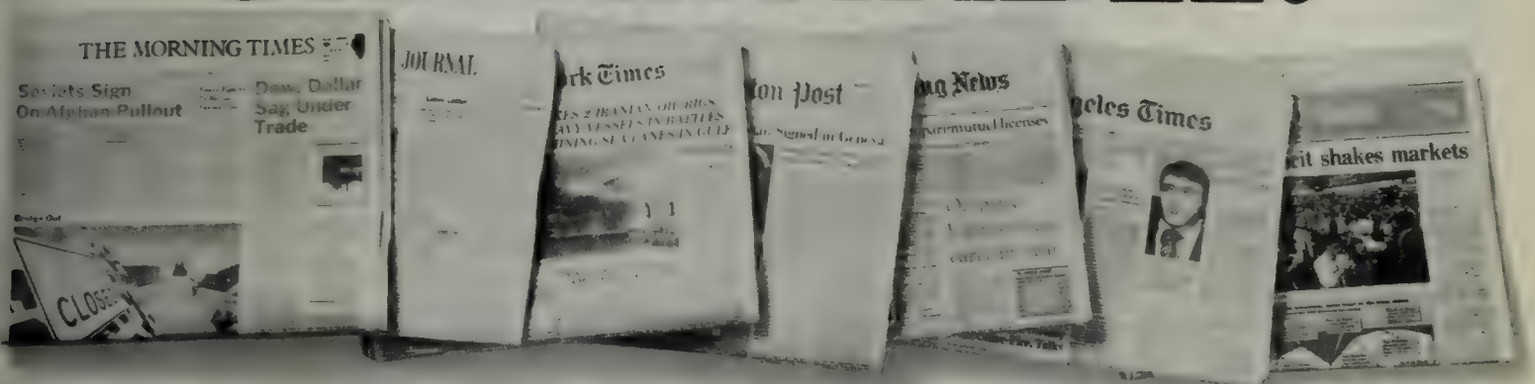
It's the old dog-with-bone story. IMC formerly aimed at being a low-cost commodity producer in a world where it was top dog. It traded that for things like one of Mallinckrodt's latest products, a liquid injected to help organs show up on X rays. But the new Optiray liquid hasn't been approved by the Food & Drug Administration; when it is, it will reach a market crowded with like products.

Or consider Pittman-Moore. Under IMC, it is spending heavily on new products. Pittman-Moore's spending to develop new pig antibiotics, chicken vaccines and cat drugs will reach $32 million this year, up from $1.5 million in 1980. So far, however, the company's best prospective product, a drug that reduces pork-belly fat by 15%, lacks sizzle. FDA approval for it hasn't even been sought yet.

IMC might have done better to invest in the businesses it already had. Take the industrial products group, renamed Applied Industrial Materials Corp. by its new owners. As a slimmed-down independent company, Applied Industrial is now profitable. Charles Gallagher, the chief executive officer, has repaid all of the company's $90 million in debt and bought out the other original investors. "One would have to call this a ten-strike," he says of the deal.

Why couldn't Kennedy have done the same? "I didn't want to take a lot of time to do the structural things that Charlie had the time to do," he says. ■

MOST OF WHAT WE HAD TO SAY ABOUT BUSINESS THIS MORNING WAS UNPRINTABLE.



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Top Business News	6:30	7:00	7:30	8:00
Financial News	6:35	7:05	7:35	8:05
Small Business News	6:40	7:10	7:40	8:10
Special Business Features	6:50		7:50	
CEO Close-Ups		7:15		8:15
Internat'l Business Line		7:25		

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Edited by Gary Slutsker

Except for IBM, Charles Wang's Computer Associates sells more packaged computer software than anyone else. You never heard of Computer Associates? That's probably because it does business differently than its rivals do.

Charles Wang and his thundering nerds

IT WAS BILLED AS a summer Olympics for some corporate overachievers to let off steam. No fewer than 450 of them arrived at the Club Med near Catania, Sicily in May for a week of soccer, volleyball and track and field. By the end of the week 15 had been taken to the hospital, for everything from broken arms to dislocated shoulders; and many of those who weren't limped about with twisted ankles.

This is what passes for fun and games at a little-known but heavyweight company called Computer Associates International, Inc. With 4,500 employees operating from offices in 22 countries, Computer Associates piled up revenues, in the 12 months ended in March, of $709 million and is headed for $900 million this year. It is already the biggest player in the packaged software game, bigger than Microsoft, bigger than Lotus Development *(see chart, p. 120)*

Charles Wang, chairman of Computer Associates
"What if GM owned all the gas stations?"

The coach for both the highly competitive performance on the sports field and in business is a 43-year-old centimillionaire from Shanghai by way of New York's borough of Queens, named Charles Wang (pronounced WONG). Wang—as his leisure time proclivities suggest and his business achievements prove—is about as competitive as a person can get.

Most FORBES readers have probably never heard of Charles Wang, which seems strange in a world where software entrepreneur Bill Gates, chairman of Microsoft, has become a national hero. But Wang, who employs no public relations agency, isn't much interested in celebrity status. He just wants to beat everybody else at the software game.

Those investors who know about Wang love him dearly. Since Computer Associates went public, in 1981, its stock has gone from less than 2 to 37 last year, adjusted for splits. In a period that has not been kind to new issues, Wang's company has been a happy standout. If its total market capitalization of $2.3 billion is small in comparison with that of sizzling hot Microsoft's $3.4 billion, Wang is scarcely suffering. At a recent price of 29, Wang's Computer Associates stock alone is worth in excess of $120 million.

Charles Wang got his start as a programmer but has made his name as a financial wheeler-dealer. His strategy is simple but brilliantly executed: Build an efficient sales and service network for software products, then keep it busy by acquiring and developing new programs to meet his customers' needs. With Wang's distribution network behind it, the acquired products and the companies acquired with them naturally do better than they did as independents. "How do you support a customer in Kuala Lumpur?" Wang asks. "We have an office." And lots of product: around 200 different software items, versus 26 for Microsoft and 15 for Lotus.

Wang's programs run on everything from mainframes to micros made by manufacturers from IBM to Digital Equipment and Britain's ICL. His SuperCalc 5 spreadsheet for personal computers competes against Lotus' 1-2-3. But most of Computer Associates' revenues and profits come from so-called systems software or programs that make huge data centers run smoothly. These programs economize on tape and disk storage, monitor the data's security and the computer's performance and help programmers

write code more productively.

Growth in mainframes is slower than other segments of the computer industry, but is Wang feeling the squeeze? No, because his software products help users get more efficiency out of their existing mainframe horsepower. If users are buying fewer machines, they will buy more software to help get their money's worth from what they already own.

Equally simple is Wang's attitude toward costs: He runs what is probably the tightest operation in the software industry. After Computer Associates acquired archrival Uccel Corp. last year for $830 million in a stock swap, it dismissed 20% of the staff within five days of getting the green light from the Justice Department to go ahead with the deal.

Heartless? Not so, says Wang. "Our goal has always been to tell everyone where they stand, career-wise, on the day of the acquisition or as soon as practical after. And it sometimes causes us tremendously bad publicity. But I think it's the only fair way to do it. I've seen company after company tell employees, 'Everything will be fine,' but sooner or later the pink slips start to dribble out. Meanwhile, everybody's sitting around waiting."

Aided by such a hard-nosed approach to costs, Computer Associates' profits went from $11.4 million in 1984 to $102 million last year, restated to reflect the Uccel acquisition. Sales went from $159 million in 1984 to $709 million. By comparison, that's faster growth than most of its peers. Computer Associates' stock trades at 16.2 times next fiscal year's projected earnings, versus Microsoft's multiple of 20.6.

"People have this image of a software company as a nice place to work where everybody has beards and works nice hours," says Bahar Gidwani, software analyst for Kidder, Peabody.

But nobody would mistake Computer Associates for a university. Says Gidwani: "By cutting costs, by focusing on marketing and by promoting product management, Computer Associates is putting the software industry on more of a business footing."

Computer Associates President Anthony Wang
Obviously, IBM is not amused.

Appropriate to its thrifty ways, Computer Associates' headquarters are spartan offices in suburban Garden City, N.Y., just down the street from a bowling alley.

Do entrepreneurs like Charles Wang help the economy or sap it of its vitality? Charles Ferguson, a former IBM analyst and MIT research associate, is making headlines lately arguing that greedy entrepreneurs backed by short-sighted venture capitalists drain high-tech industries of talent and capital, damaging their ability to compete against foreign firms with longer-term research horizons. Ferguson bases his conclusion on the U.S. semiconductor industry, where, he argues, endless defections and startups have diverted capital and manpower from the established companies that are best able to stand up to the Japanese.

But try to imagine a software industry without entrepreneurs like Wang and thousands of smaller-scale software shops that pump out programs. Computer users would be dependent on hardware manufacturers, whose programs tend to run less efficiently. For example, IBM's software is notorious for eating up computer resources, thus encouraging customers to reach up the price scale for more memory, processor power and storage-related hardware such as tape and disk drives. As Wang likes to say: "What if General Motors owned all the gas stations? How fuel-efficient would it make its cars?"

Writing computer programs is an inherently small-scale enterprise open to anyone with time and access to a personal computer. That puts even modestly financed entrepreneurs on an equal footing with, say, the giant Japanese software "factories" being set up by computer companies to write programs. To speed up a project in his 1,300-staff development group, Wang cuts programmers instead of adding more. "Take your two weakest ones off," he says. "It's a very simple process and it works every time."

Ferguson's attack on entrepreneurship runs counter even to the evidence gathering in the semiconductor business. There, as development tools become more flexible and easier to use, some experts forecast an explosion of creativity in semiconductor design, spurred largely by entrepreneurial firms (FORBES, *Apr. 4*).

Who is Charles Wang and where did he come from? Born in Shanghai five years before the Communists came to power, Wang was brought to the U.S. with his family in 1952. He grew up in Queens, where his father was a law professor at St. John's University, and took the bus and subway to Brooklyn Technical High School.

As befitted the sons of a scholarly Chinese immigrant, Charles' two brothers, Anthony and Francis, both went Ivy League, graduating from Cornell University Law School, to become lawyers. But Charles stayed close to home, studying math and physics at Queens College, part of the City University of New York. Was he defying family tradition? Not at all. He was heeding the advice of his practical-minded father, who told him to pursue a scientific career to avoid discrimination caused by language barriers. "He kept telling us, 'Become doctors, engineers, physicists, mathematicians. Don't be lawyers.' So I listened to him. I was a good kid."

When he graduated from humble Queens College, Charles Wang got a job as a computer programming trainee. The year was 1967; Steve Jobs and Bill Gates were still in school.

There was no software industry to speak of in those days, and microcomputers didn't exist. When IBM sold a computer, it included in the price of the machine the basic programs needed to make it work. If a mail-order company wanted a program to computerize the names of its catalog customers, it hired programmers to do the job in-house, using the tools IBM provided.

Then, under government pressure, IBM began to "un-

bundle" software and price it separately from the computers themselves. The idea was to enable individual entrepreneurs to compete against IBM. This marked the true beginning of the independent software industry.

The first programs solved fairly mundane problems. One firm, Pansophic Systems of Chicago, had a program to transfer data from IBM punch cards to magnetic disks and back them up on tape. A simple idea, but in 1969 no one had a competing product, and it built Pansophic into a $165 million software venture.

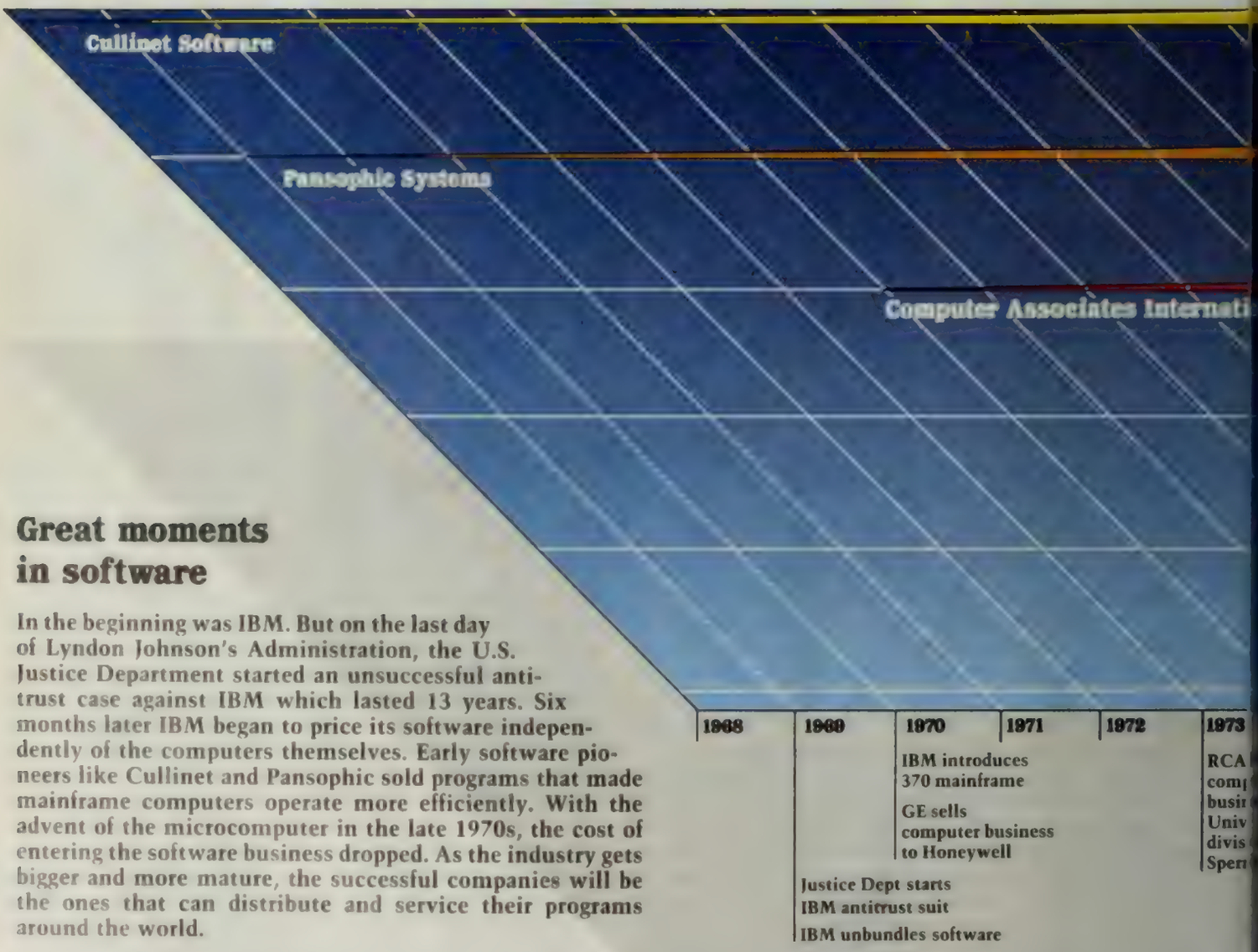
At the time of unbundling, Charles Wang was working as a programmer at a Columbia University computer lab. By the early 1970s, while peddling software for a small New York City computer service bureau, he was starting to size up the opportunities that were budding all around him in software. Wang's boss was already the marketing agent for a Swiss company called Computer Associates, which wanted to set up its own operation in the U.S. When Wang couldn't convince his boss to take action, he set up the operation himself, starting business in 1976 in a joint venture with the Swiss company.

When it came to the programs he could sell with a partner out of their midtown Manhattan office, Wang had two criteria. "One, you had to be able to sell it by phone—it couldn't be so high tech that you had to go visit the site," he explains. "Two, you didn't have to sell the concept, just the product." The first program Wang picked bombed, but he didn't quit. The next—a program called CA-SORT that let computers sort bits of data faster, using less disk space, than the sorter IBM was pushing—proved a runaway smash. "We sold SORTs like crazy," says Wang in his New York accent. "I was on the phone morning until night." By 1980 Wang had bought out his parent firm.

Having no hardware to sell, Wang was free to sell programs that were more efficient. For example, CA-SORT ran 25% faster and used about half the disk space of IBM's comparable sort program. Thus every user of IBM hardware was a prospective customer for Charles Wang's Computer Associates software.

With the cash he was generating, Wang started developing new programs and buying still others that he could sell to the same data-center customers he had already hooked on SORT.

In 1978 the business was growing and Wang needed help. His brother Tony quit the Manhattan law firm of Burke & Burke and joined Computer Associates, quickly discovering that software was more interesting and lucrative than law. Today Tony is president and Charles is chairman and chief executive. In 1985 the Wangs bought a



Great moments in software

In the beginning was IBM. But on the last day of Lyndon Johnson's Administration, the U.S. Justice Department started an unsuccessful antitrust case against IBM which lasted 13 years. Six months later IBM began to price its software independently of the computers themselves. Early software pioneers like Cullinet and Pansophic sold programs that made mainframe computers operate more efficiently. With the advent of the microcomputer in the late 1970s, the cost of entering the software business dropped. As the industry gets bigger and more mature, the successful companies will be the ones that can distribute and service their programs around the world.

computer security program from a little leveraged buyout in New Jersey called CGA Computer. The company had been selling $10 million a year's worth of the program, called Top Secret. Computer Associates paid $25 million in cash for the product.

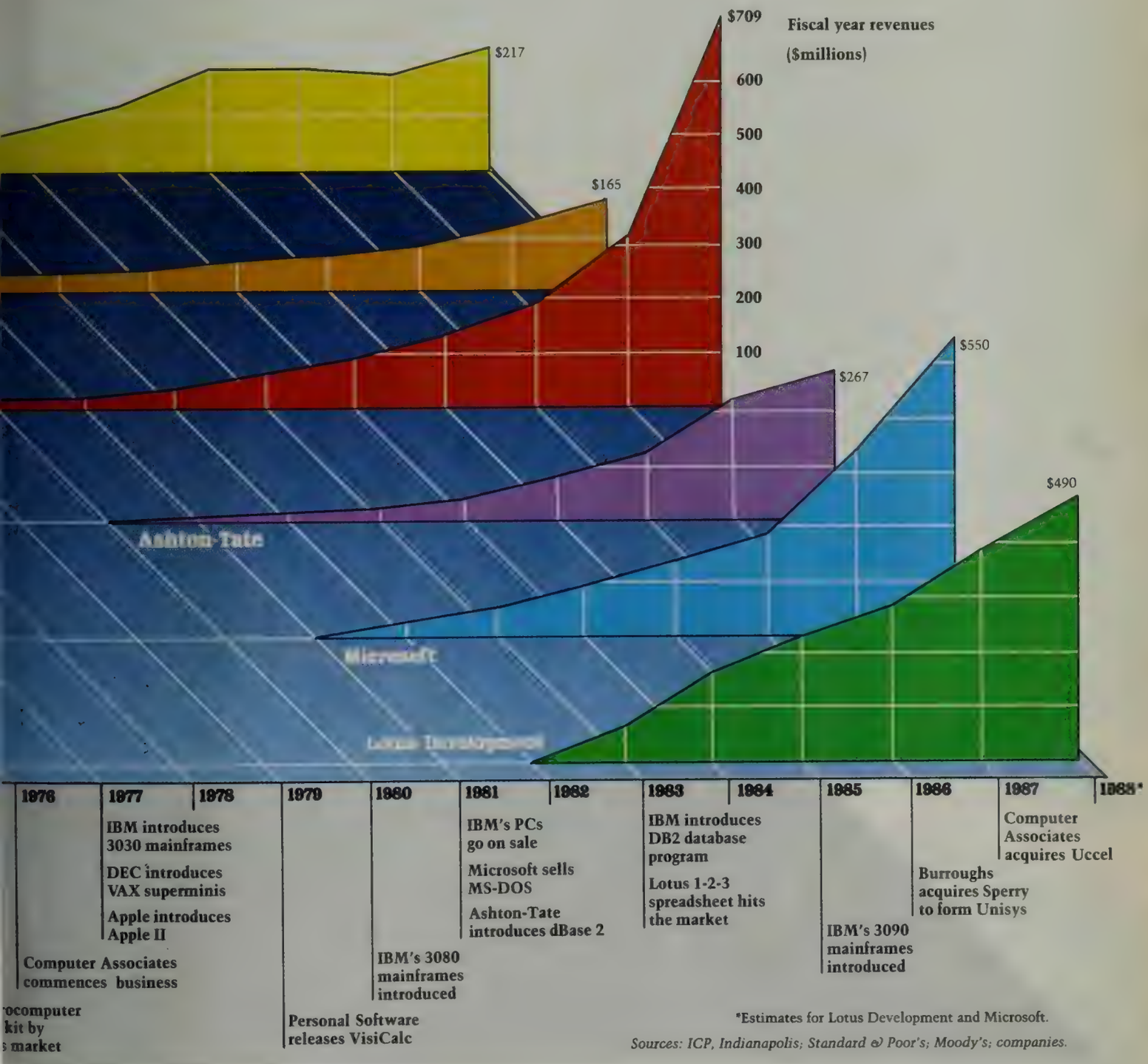
Rivals sneered that Wang had overpaid. But they misunderstood the Wang strategy. Wang wasn't interested in CGA for its assets or its earnings but for its product. Says Mark Finley, software analyst for Gartner Securities, "In the first 12 months with the product, they [the Wangs] sold $36 million worth of Top Secret."

Competitors complain that the Wangs are price-cutters who make a habit of whipping up attractive leasing deals and too-easy payment plans simply to steal other people's customers. Charles and Tony see things differently. They see low price lures and financing packages as a kind of capital spending to expand their business. In any case it works: IBM still has 71% of the worldwide systems market, estimated by Kidder, Peabody's Gidwani to be worth $5 billion, but Computer Associates, with 11%, dwarfs its two nearest independent competitors, Pansophic, which has 3%, and Sterling Software, with 2%.

Obviously, IBM is not amused, since the independents are making gains at its expense. The hot new items in data-center software are various programs permitting so-called lights-out, or fully automated, operation of the centers. That means eventually no human operators will be needed. In recent months some IBM salesmen have begun selling the idea that, unless customers sign up for certain IBM-developed computer security programs, their data centers won't be able to run the lights-out program. Officially, however, IBM says the software can run with other security programs.

On another front, IBM has lately begun pushing to improve its performance in applications software, which solves specific problems for computer users, like accounting or word processing packages. Thus last year it formed the Application Systems Division to commercialize about a thousand programs developed by IBM and others.

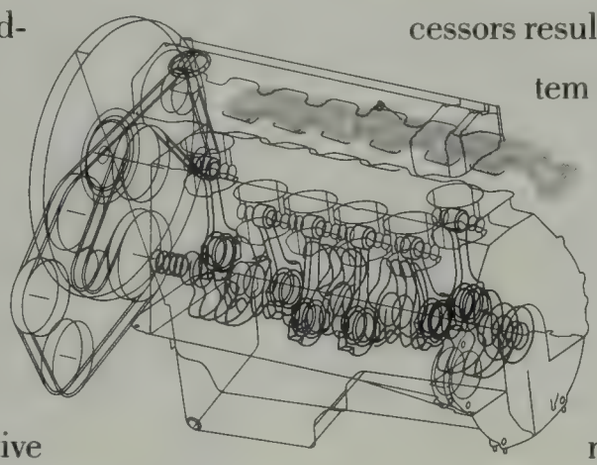
There is yet another worry in Charles Wang's future. Since much of his growth has been built on buying software, where does he turn now that he has already swal-



300E

THE MERCEDES-BENZ 300 CLASS: ITS TECHNOLOGY MAY BOGGLE THE MIND, BUT THE SOUL UNDERSTANDS IMMEDIATELY.

The engineers of Mercedes-Benz have long been noted for their uncanny ability to turn remote technical exercises into rewarding automotive experiences.



With the 300 Class, Mercedes-Benz engineers have done nothing less than turn the theoretical into the phenomenal. Distilling esoteric technology into what one automotive journal calls "a mechanical symphony." Creating an automobile of sublime driving pleasure.

An automobile whose electro-mechanically controlled six-cylinder engine produces robust power—177 horsepower in three-liter form. Power so smooth that even at test-track velocities, the engine's exertions can barely be felt.

Other advanced engineering concepts produce further refinements of the classic Mercedes-Benz driving character. A multilink independent rear suspension system preserves near-perfect geometry between tire and road, resulting in a ride that *Car and Driver* terms "nothing short of magical." While the same journal reports handling prowess so inspiring that "you can charge unfamiliar territory as though you were on your daily route to work."

Advanced aerodynamics have shaped a 300 Class sedan body that cuts drag to a slippery 0.31 Cd—and wind noise at cruising speed to near silence. The advanced application of microprocessors results in an Anti-lock Braking System that modulates braking pressure up to 15 times per second in sudden hard stops, preventing skidding and preserving steering control.

And advanced technology addresses the concern for occupant safety: microprocessors in the Supplemental Restraint System are primed to deploy a driver's-side air bag and front seat belt emergency tensioning retractors within *milliseconds* of a major frontal impact.

In their pursuit of a superbly capable automobile, the engineers of Mercedes-Benz have created one of the most sophisticated production cars ever built. But you need not be an automotive engineer to appreciate their achievement. You need only drive any one of the 300 Class automobiles: 260E and 300E Sedans, 300CE Coupe and 300TE Station Wagon. You—and your soul—will understand immediately.

Engineered like no other car in the world

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lowed so many software firms? That question has caught the attention of Wall Street's short-sellers, who have been bearish on Computer Associates most of this year. Wang doesn't consider this much of a problem. For one thing, there are thousands of software firms with programs just waiting for a chance to hit Wang's sales network. But it's easy to overlook Wang's development effort. Computer Associates' 1,000 programmers are split between updating existing and acquired program and writing new ones. "We have d veloped more products than any oth independent software company Wang says.

Nevertheless, don't think of Con puter Associates as a software writing firm so much as software distribution firm. "This industry is in its infanc I mean really in its infancy," says Charles Wang. "We' still finding our way through this maze." —G.S.

Science & Technology

Random Access

Commentary by Esther Dyson

STANDARDS BY FIAT

What ulterior motives lie behind the much-talked-about Unix rebellion? In truth, there's some question whether it's about the creation of standards or about the blocking of standards.

The rebels are a group of large computer makers banding together as the Open Software Foundation. They have rallied to come up with an alternative to the Unix standard that AT&T and Sun Microsystems are working on.

Unix is an operating system. Think of an operating system as the general contractor residing in a computer. It oversees subcontractors—application programs—doing specific tasks, such as running a spreadsheet or processing words. Without the other, neither the general contractor nor the subcontractor can do anything.

Application programs have to be written to fit a specific operating system. Thus the most widely used operating systems tend to attract the best application software, and, in a self-reinforcing cycle, the most customers. Most operating systems are proprietary, sold by one hardware manufacturer for its own machines, but Unix (along with IBM/Microsoft's DOS and OS/2) is more public. Unix was developed by AT&T almost 20 years ago to run on the computers it was buying from other vendors. Not a computer vendor at the time, AT&T was glad virtually to give Unix away—and glad to see other people use it as the basis of their own custom implementations. Along the way, AT&T started charging for Unix, but it was a sideline to AT&T's

main business.

Unix ended up gaining wide appeal mostly in the university community, because it was cheap and malleable, a fun thing for students to experiment with. (One of them, William Joy at Berkeley, developed one of the major Unix variants and went on to become a cofounder of Sun.) It was also popular among second-tier hardware vendors, who couldn't fund the development of an operating system of their own, and who would have found it hard to attract customers to a unique offering anyway. But although all these companies sold "Unix," each sold a different version, and applications had to be rewritten to work with each brand of machine.

Among the first-rank hardware vendors (IBM, Hewlett-Packard, DEC, Apple et al.), Unix won little but scorn until recently. They were more interested in locking customers into a proprietary operating system for their own hardware only.

All that changed when AT&T got into the computer business and decided to make something of Unix. Unix' great appeal to the technical community—its malleability—was its downfall in the commercial world, which wanted a tight, well-defined standard. AT&T set about creating that standard—and in the process reasserting technical and financial control over the product. Now only Unix systems following AT&T's new specifications will qualify for the AT&T blessing. To develop the new Unix, AT&T teamed up with and invested in Sun, moves that enhanced its credibility in the computer community. It also created a threat. No fair! cried the licensees. You gave it away; you can't take it back.

AT&T's response was, in essence: Sure we can. You can do what you like with the old Unix. But from now on, you have to follow our rules for any future version.

Other computer makers are skeptical: How can they be sure that license fees will stay modest? Besides, AT&T and Sun are getting several months' jump on them with the new Unix, which will be available on AT&T/Sun-style machines first. So they have decided to create their own standard. That's what the Open Software Foundation is ostensibly about.

The real motives aren't so clear. You can't create a standard by proclaiming one. In fact, the likely effect of the foundation's establishment will be to divide the coalescing Unix standard once again.

But I doubt the Open Software Foundation will have much impact. I have a fundamental distrust of committees creating standards—or anything else. A free market is much better at picking good products than a group of "carefully selected" people under formal, sanitized rules and restrictions.

Will the member companies really commit their best people to the effort (or allow them to be hired away)? Truly great software is built by individuals or by teams led by individuals, not by committees. And it is chosen by customers, not committees. ■

Esther Dyson is editor and publisher of the newsletter Release 1.0.

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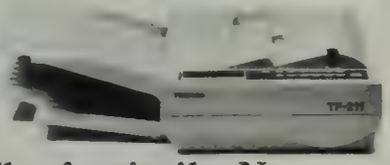

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In Touch with Tomorrow

TOSHIBA

Marketing

Edited by Jeffrey A. Trachtenberg

Behind most of those trendy Italian men's clothing labels stands a single company, Gruppo GFT. GFT is about to become somewhat more American.

Designers are made as well as born

MEN'S SPORTS CLOTHES designer Andrew Fezza has reason to sound excited. The 33-year-old from New Haven has labored in obscurity for a decade, his $500 black silk sport jackets and $110 houndstooth linen trousers appreciated by only a few. But now, in his third season of a licensing deal with Gruppo GFT, one of the world's smartest and most powerful clothing manufacturers and marketers, Andrew Fezza is about to be famous and very probably rich.

Based in Turin, Gruppo GFT has in less than ten years virtually created the high-priced market for European men's fashions in this country. Since 1980 it has popularized Giorgio Armani, Emanuel Ungaro and Valentino, among others. GFT helped broaden the market for Italian men's fashions beyond the show business crowd and helped to persuade businessmen and Wall Streeters to diversify their Brooks Brothers, Hart Schaffner & Marx and Oxxford wardrobes. The result: Gruppo GFT's sales here have exploded from $7 million in 1980 to an estimated $230 million this year.

Now Gruppo GFT is working on the next step in this marketing offensive. It is inching downmarket, creating clothing collections for men and women that are somewhat cheaper than the top-of-the-line fashions it has been known for. It has begun to transform three relatively obscure American designers into fashion luminaries, much as moviemaker Louis B. Mayer took unknown actors in the Thirties and Forties and created stars at MGM.

Kal Kramnoth

Joan Helpern, Andrew Fezza and Joseph Abboud

The next fashion superstars?

So, besides Fezza's, Gruppo GFT is making a line of $250 women's skirts and $400 jackets for designer Joan Helpern under a licensing pact. Helpern is best known for her Joan & David shoe collection ($800 crocodile loafers); an earlier clothing line failed three years ago. And Gruppo GFT has signed men's designer Joseph Abboud to a long-term contract. The company will make his $600 suits at a factory it owns in New Bedford, Mass.

Usually a clothing manufacturer only cuts and ships. But look at how Gruppo GFT is repackaging Andrew Fezza as the poor man's Giorgio Armani. Because the company owns its own textile mill, it can weave 90% of the fabrics Fezza chooses for his Firm by Andrew Fezza suit line. This gives Fezza a fashion edge—fabrics woven exclusively for him—he would not have otherwise. And because Gruppo GFT owns a low-cost factory near the mill in Cuernavaca in this case, it can retail the line at stores like Bloomingdale's and Macy's for only $350 without sacrificing profit margins. This is $150 below the price of most other designer suits.

But price and unusual fabrics are only part of the marketing formula Gruppo GFT has devised for Fezza. In the fashion industry, where real differences are usually marginal, building an image based on quality is everything. To that end, for the third season in a row, GFT will sponsor a high-profile road tour for Fezza to such key stores as Macy's, San Francisco and Neiman Marcus. There he will meet top merchandisers and explain his clothes to the sales help. Even the most jaded sales clerks show signs of life when they personally know a fashion designer.

Fezza will also be packaged for the local media. The first two times around, for example, he says he did as many as 10 interviews with such publications as the *Los Angeles Times*, the *San Francisco Chronicle* and the *Houston Post*. "GFT is trying to make me famous," says Fezza.

Gruppo GFT is owned by four members of the Rivetti family—Marco and sister Giovanna, cousin Carlo and his sister Cristina. The family has been in the textile and apparel business since the

Armand Borlant/Vu-Contact

The Gruppo GFT factory in Settimo, Italy
Laser fabric cutters, 1,700 workers and a football-field-size cafeteria.

middle of the 19th century. In 1953 Marco's father and two uncles split from the rest of the family by buying full interest in Gruppo GFT, a division that made ready-to-wear. The three brothers have since died, with ownership being passed to their four heirs. Marco Rivetti, 45, is chief executive.

The heart of the company is a menswear factory in Settimo, Italy, an industrial suburb of Turin. It is probably the biggest factory of its kind in Europe, and it is supported by six other smaller men's factories in Italy that assemble suits and trousers and coats. (There are also a total of six women's factories scattered through northern Italy.) Roughly 70% of the 1,700 workers are brought to work each morning on one of 30 company buses and fed three-course lunches that cost them $1.75 at a company-subsidized cafeteria the size of a football field. Altogether, the company produces 2,500 suits a day.

Technology is everywhere. One of the biggest problems clothing manufacturers face is cutting the various pieces of a pattern to make the most economical use of fabric. There can be 50 different sections to a suit, each with its own pattern silhouette. That silhouette then has to be moved as though it were a jigsaw puzzle piece, so that it is cut with the minimum of wasted cloth. At the Settimo plant, this is done on a computer graphics machine, where the outline of each piece is positioned electronically on an oversize black television screen. When the pieces have been arranged on the screen for minimum waste, that configuration is electronically printed on white paper. In turn, that paper is placed on top of a bolt of fabric, where the cutting is done with a laser beam.

Dino Scrimali/Grazia Neri

Gruppo GFT Chief Executive Marco Rivetti
"We need to reach more customers."

Today Gruppo GFT is a global rag cutter, making and marketing perhaps more famous labels than any other company in the world. It manufactures Ralph Lauren in Mexico for Lauren's Mexican retailers; it will soon sew and sell Pierre Cardin to the Chinese; it produces and peddles two Christian Dior collections for men and women throughout Europe.

Why, with all that going for it, is GFT expanding into cheaper lines? Because standing still in business is, as it always has been, dangerous. GFT's sales are still grow-

Armand B[illegible] Via Contact

Settimo's computer-aided pattern design
Cutting fabric waste.

ing, but its profits are not. Worldwide sales last year were $833 million, against $750 million a year earlier, but profits were flat at $33 million for both years. Says Guido Petruzzi, who heads GFT (USA) Corp.: "The dollar is down against the lira, which hurt profits. Also, we invested substantially in a major new computer network."

Profit predictions for this year are not out yet, but the direction is clear. Says Rivetti: "We have to keep growing, which means we need to reach more customers."

Moreover, the entire $3 billion (wholesale revenues) menswear market has been flat for five years. Worse, wool prices worldwide have nearly tripled this year, which means that prices for basic worsted fabric are e[illegible]pected to rise more than 30%; and t[illegible] lira continues to strengthen again[illegible] the dollar. In turn, this will ma[illegible] GFT's Italian-made suits even mo[illegible] expensive.

In its newer lines, GFT will sha[illegible] away from its distinctive styling a[illegible] begin to look more American to ga[illegible] wider market acceptance. "We wa[illegible] to attract the stores which sell Amer[illegible]can traditional clothing, which mea[illegible] broadening GFT's base," adds Jose[illegible] Abboud. "My asset is my ability [illegible] create. But you need a company [illegible] take care of production, shipping, a[illegible]vertising. Look at their success wit[illegible] Armani. Obviously they know mo[illegible] about marketing than I do."—J.A.T.

Giorgio's way

The U.S. customers who pay up to $1,800 for Giorgio Armani's top-of-the-line men's suits may figure that the suave, 53-year-old fashion designer uses the profits to live like a king. He does.

Ensconced in a 16th-century palace on the outskirts of the Brera section of Milan, Armani sits for an interview directly beneath an original pastel-colored 18th-century Tiepolo fresco. In the same building at Borgonuovo 21 is his apartment, private swimming pool, sauna, and kitchen with chef and waiter. That Armani's enterprises are highly profitable can be judged by the low sales volume behind this lavish living: This year sales of Armani clothing manufactured by Gruppo GFT in this country will reach about $90 million in the U.S., perhaps $350 million worldwide for Giorgio Armani SpA. But the pretax margins are 15% to 20%, as compared with the 7% to 8% customary in the rag trade. Some of the fattest profits come from the U.S.

"When I started, in 1974, the first clients who really understood me were the Americans," says Armani, dressed in dark-blue pants and a baby-blue polo shirt emblazoned with his stylized eagle logo. Since then American clothing buyers have willingly paid almost incredible prices for his subtly colored clothing. His open-weave fabrics, often in black-and-white, gray-on-black combinations, are especially striking.

The silhouette of his menswear is also distinctive: The shoulders are narrow, the chest full, the collars deeply notched, the button stance low. Even those who are oblivious to fashion rarely fail to recognize Armani clothing. Wearing it gives people a definite leg up in the game of conspicuous consumption. Or as Giorgio Armani himself puts it: "People throughout the centuries have always wanted to own things which identified them as having arrived. Whether it is a logo on a T shirt, a certain brand of chewing tobacco or a certain kind of snuff box."

To help his customers stand out from the crowd, Armani offers three distinct Armani lines. The men's and women's clothes he designs for GFT (women's blazers, $650 to $800, blouses, $300 to $400) bear a white label with black lettering that reads "Giorgio Armani Made In Italy." There is also the Mani by

Piergiorgio Sclarandis/Black Star

Designer Giorgio Armani
Maximizing profits, not output.

Giorgio Armani label, which is a lower-priced menswear collection (sport coats $360; suits $700) made by Gruppo GFT. Mani is designed for customers in their 20s and up. Armani's most expensive line carries a black label with white lettering that says Giorgio Armani Via Borgonuovo. The line is made by a small Italian manufacturer called Vestimenta and is carried in the U.S. by only 7 men's stores and 15 women's stores. He owns Armani stores in Rome, Milan, Paris, Tokyo, New York, a half-interest in the Bologna store, and will own the Los Angeles store set to open this fall. There are also 91 freestanding Emporio Armani stores worldwide, of which he personally owns 11. These carry more moderately priced casual clothing and appeal to a younger customer. The next Emporio opening: New York City. But unlike Pierre Cardin (FORBES, *May 2*), Armani has not overexposed his brand. "When you see the name everywhere, it loses its importance," he says.

On the other hand, you don't want to be so exclusive as to lose profit. Although he never studied economics, Armani is a good economist: He sets prices to maximize profits rather than to maximize output.—J.A.T.

Motivated vs. Possessed Some want success. Others must have it. Must. They are not merely interested, they are passionate. They are not merely motivated, they are possessed. Those thus spirited become leaders. In all fields. Including business. The business elite may read many magazines, but they study only one. For its scope, its coverage, its insight, its very timeliness, for the need that it satisfies: INTERNATIONAL BusinessWeek

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Personal Affairs

Edited by William G. Flanagan

A single-digit handicap is a sign of indolence, only women caddy, a hole in one can bust you, novices drive well but lack any short game, club fees can cost millions.

The Rising Sun and the royal and ancient game

By Richard Phalon

MOUNT FUJI BROODS unseen in the mist beyond the rim of the course as Paul Penrose, managing partner of KPMG/Peat Marwick's Tokyo office, tees up on the 500 Club's first hole, a long par 5. The sweet click of his drive heightens the early morning stillness on this exclusive enclave in Shizuoka Prefecture, an hour and a half down the Tomei Expressway from Tokyo.

The ball takes one last hop and skids to a pretty lie, short of the three traps cleverly sunk at the dogleg to the right. *"Daijobu!"* pipes caddy Yamazaki, white-gloved hands folded behind her back. *"Daijobu!"*

Okay! Okay, indeed. Welcome to the world of upmarket Japanese golf.

Japan is gaga over the royal and ancient game. Form-obsessed salarymen practice their backswings (with and without furled umbrellas) while waiting on crowded subway platforms and street corners. Some 12.5 million Japanese play golf—more than 10% of the population. Yet only one in five golfers belongs to a club. A quick look at membership fees explains why. Even with prices down 30% or more since Black Monday, membership in the bellwether Koganei Country Club is currently quoted at around 280 million yen or about $2.2 million. At least a half-dozen other clubs near Tokyo are selling at more than $800,000; even lower-rated clubs charge in the range of $40,000, not including annual and green fees.

Former Prime Minister Nakasone plays Koganei, as do a covey of Mitsui and Mitsubishi executives.

Photos by Sheila Phalon

Triple-decker driving range in Tokyo
For many golfers, the only game in town.

The membership list at the 500 Club is more "international," says Paul Penrose—the standard mix of high-level businessmen and government officials, leavened with people from the arts and a few non-Japanese.

The course is artfully draped over and around the foothills of Mount Fuji. Some of the rough is on slopes so steep that you need a trench mortar to bracket the green. The climb to four of the tees is so steep that escalators are thoughtfully provided.

You're not likely to see many women golfers. Perhaps a quarter of Japanese courses have restrictions on women members, and their memberships (because there are fewer of them) cost a lot more than men's. But female caddies are everywhere. Uniforms vary. At the 500 Club the caddies are distinguished by their epaulets and striped shirts. At Koganei the outfit is topped with a traditional white cotton headdress that covers a plastic safety helmet—Japan's courses do get crowded. As in the U.S., caddies at some courses get to play more often than members, so even in this bastion of the male, their counsel is often prized.

At Koganei, women are not permitted to play on weekends and female visitors are not even allowed in the dining room, a ukase that deprives them of both the house special, curry rice, a steal at 500 yen, and the camaraderie of the obligatory lunch break at the turn. This pit stop before the back nine—often lasting 40 minutes to an hour, as early as 9 or 10 in the morning and frequently washed down with a schooner or two of beer—puts some Westerners on edge. "They worry about having their sense of rhythm broken," says Jillian Yorke, editor of *Japan Golf Report*. It's all part of the tradition, as is the rich demonstration of gratitude demanded of anyone who makes a hole in one. The protocol calls for gifts to everyone—other members of the foursome, the foursome behind, to the caddy, to the club itself, to anyone who saw the ball drop—and drinks for all hands. The tariff can run to $5,000 or more. Most golfers hedge against the happy event by the purchase of hole-in-one insurance at the cost of a couple of thousand yen (about $15 per year).

Betting is common enough but among friends tends to be a modest 500 to 1,000 yen (roughly $4 to $8) a hole. Small change in a game where the business stakes

Peat Marwick's Paul Penrose and Yoshikazu Hori of Cray Research, Japan, on the green at the 500 Club
In the shadow of sacred Mount Fuji, daunting hills and tricky lies.

re so high. Paul Penrose sees golf as a reat aid to doing business in Japan. We can't compete with the Japanese n all that nightlife in the Ginza," ays the Peat Marwick partner.

The game also transcends the lanuage barrier. Says Penrose: "You on't have to spend three or four ours sitting across from a person vho is worrying about his Japanese or nglish."

However fierce their love of the ame, few Japanese golfers put in the ime to cultivate single-digit handiaps. They daren't. In fact, many Japaese companies explicitly ban play uring the workweek.

But they are still tough competitors nd go strictly by the book. Penrose, or example, carries an official Japaese Golfers Association handicap of 7. A couple of years ago, playing as he guest of a customer, he stormed round a course in Osaka at 12 under ar. Last year—same course, same ustomer—he discovered that his andicap had been cut to 5.

Do the Japanese like to win badly nough for the shrewd American on op of his game to ease off once in a vhile? Penrose grins and says only hat there are times when colleagues ave accused him of shooting customer golf. His game is naturally erratic, he insists.

Penrose, who has lived in Japan since 1976 and played most of its top courses, ranks the 500 Club, Koganei and Kawana among his personal favorites. Another is one of Japan's oldest clubs, Kasumigaseki, which is rated among the world's 100 best by *Golf Magazine*.

Half the appeal of Japanese golf may be esthetic. Koganei, for example, is planted with hundreds of cherry trees, and the sweep of its green, viewed through the windows of the traditional Japanese-style clubhouse, is a tonic from the seething anthill urbanscape of Tokyo.

Japanese golfers tend to dress up to the scenery. Dick Helmstetter, whose classic and very expensive Callaway Hickory Stick clubs sell briskly in Tokyo, jokes that the average player does not feel comfortable unless wearing "Arnold Palmer slacks, Isao Aoki socks and a Jack Nicklaus sweater."

It takes more than snappy togs, though, to make the leap to sanctuaries like Koganei from the driving

Gaijin golf

While outsiders are admitted as guests, they cannot join most Japanese golf clubs. If you are looking for a game but lack a Japanese connection, there are alternatives.

Both the American Club and the American Chamber of Commerce in Japan offer members limited access to armed forces clubs within easy reach of central Tokyo. Many hotels offer room-and-play packages, too. The best known and rated of these is the Kawana Hotel and its Oshima course, a two-hour train ride from Tokyo, near the Ito Spa in Shizuoka. A twin room runs from about $190 to $330 per night (plus 20% tax and service); a weekend round of golf runs about $240 per person. Kawana is solidly booked weekends; in summer reserve six to eight weeks ahead.—**R.P.**

ranges where most Japanese log most of their play time.

One American remembers being stumped by the erratic behavior of a foursome playing in front of him. "They were immaculately turned out. They got off the tee with terrific drives, and then everything bogged down. The four didn't seem to know where they were going, couldn't get out of the traps, dropped soda cans everywhere and did not replace divots." When the American asked his caddy what was going on, he quickly got the point. The four golfers, so expert at the driving ranges, were on a real course for the first time.

With rare exceptions, Japanese walk the course. The only carts around, some fitted with remote control, are those the caddies use to trundle clubs from hole to hole.

Most courses are out-and-in ova with the clubhouse at the apex. Wee end crowding is often eased by sta ing foursomes—usually at six-minu intervals—from either end of t course, at first light. But congesti and slow play dampen no one's enth siasm. Walking head-on into a hail slices and fades from the back ni certainly beats practice swings on t platforms of the Yamanote line.

Medicare should soon provide more coverage than ever for the elderly who fall ill. But additional coverage is still needed.

Long-term health care for you and yours

PASSAGE OF THE Medicare Catastrophic Coverage Act last month by Congress should greatly soften the financial blow of a catastrophic illness, but the bill has major gaps. If extensive care, either at home or in a nursing home, is required after leaving the hospital, you or a loved one can still be financially devastated by a long-term illness. So additional long-term care coverage is still an important consideration.

Let's take a look at what the legislation does and does not cover. As of 1990 it puts an annual cap on Medicare-recognized hospital and doctor bills. The most a Medicare patient need pay for such care will be about $2,000 annually. And patients w pay less for their prescriptions, t The new bill also offers some brea to the elderly who face destituti because of their spouses' nursi home bills.

But the House also killed l month a home health care bill spo sored by Representative Claude Pe per (D–Fla.). That bill, which wou have cost between $9 billion and $ billion annually by 1993, was to ha provided up to $2,045 in month home health care benefits. It was have been funded through new pa roll taxes. The issue is bound to p up again in the next Congress.

Individuals have been able to b insurance for long-term home a nursing home care since the la 1970s. Until recently, however, t only folks interested buying it have been tho who are almost certain file a claim: people ag 70 and older, or tho showing signs of debilit ing disease. But by th time the policies are oft out of reach because of e cessive premiums or e clusions against preexis ing health problems.

Some 80 commerci underwriters plus 12 Bl Cross/Blue Shield pla today write such cove age, three times the nu ber three years ago, b many of the policies r main expensive and limi ed in coverage. Most off a fixed payment or inde nity for three to five yea rather than the servi benefit provided in typic health plans. Annual pr miums range from $1 for people in their 40s (n too many takers) to mo than $3,000 for tho nearing age 80.

For a 65-year-old, a typ cal policy with a fou year, $60-per-day nursi home benefit and $30-pe

Representative Claude Pepper (D–Fla.)
Still pressing for home care and nursing home benefits.

ıy home care benefit that requires a ior nursing home stay costs $700 ınually.

After a slow start, sales of such poli- es have risen sharply over the last ıree years, climbing about 40% last :ar alone. Credit the greater con- ımer awareness generated by debate ı the catastrophic care bill. A plan .troduced nationally last year by the merican Association of Retired Per- ıns has already signed up nearly),000 policyholders. And many large .surance companies, including Aet- ı, John Hancock, Prudential and ravelers are selling policies that car- fewer "gatekeeping" mechanisms ıch as prior hospitalization. (An im- ɔrtant consideration, since only 40% nursing home patients are recent ɔspital cases.)

Many employers would like at least ı offer long-term protection for their nployees on a group basis—so long ; they don't have to pay for it. Most e holding off for the moment, while ongress decides whether to create a derally funded scheme.

Still, a number of companies and ates have begun offering employee- ıy-all plans. In the last eight months etna, American Express, John Han- ɔck, Procter & Gamble and the state ɔvernments of Alaska, Maryland and hio have each wheeled out new em- oyer-administered plans carrying :emiums 30% under typical individ- ıl policies. Four of the seven plans low the parents of employees and ıeir spouses to purchase coverage. ɔhn Hancock's plan uses a salary re- ıction feature that allows employ- :s to pay for coverage with pretax ɔllars (a method yet to receive IRS ɔproval). Though only 7% of eligible nployees signed up for the respec- ve plans, the average participant was ıly 40 years old.

When should you consider buying ɔverage? "Clearly you should begin ıinking about a long-term care poli- ; as you approach retirement," ad- ıses Robert Hunter of the National ısurance Consumer Organization. owever, it's probably best to delay ıopping for a policy if you're under), since better public or private pro- ams are sure to come.

Consider only those policies that e guaranteed renewable, which ıeans you can't be dropped so long as ɔu keep paying your premium. Infla- on protection can also be important; policy with automatic inflation in- exing costs about 35% more for ɔmeone buying at age 65.

For a list of insurers selling long- rm care policies in your state, con- ıct the Health Insurance Association of America, 1001 Pennsylvania Ave., N.W., Washington, D.C. 20004. The May 1988 issue of *Consumer Reports* also includes the most complete evaluation of long-term care policies and rates 53 underwriters. For a copy, write: Reprints/Consumer Reports, P.O. Box 53016, Boulder, Colo. 80322. The cost is $3.

Note: Before buying any policy, check the financial health of the underwriter in A.M. Best Co.'s rating service. Only 33 of the 80-odd firms underwriting long-term care policies now carry the recommended "A+" or "A" Best rating.—**Michael Fritz**

Is rustproofing worth it?

Should you spend up to $300 to rustproof that supposedly rustproof new car you are buying? The great majority of fleet owners, who buy cars by the gross, would say no.

Only 22% of 250 North American fleet managers bother with rustproofing, according to *Runzheimer Reports on Fleet Maintenance and Safety*. The largest percentage of those who do rustproof are managers of utility and government and law enforcement agencies, who tend to hold on to cars longer than other fleet operators—typically 60 months versus 36 months.

Business fleet managers are even more sparing with rustproofing—only 10% nationally bother with it. Said one manager: "We don't feel we need it because of the better warranties on new cars."

The major culprit in car body corrosion is sea salt and the salt used in winter to deice roads. No surprise, then, that the worst corrosion belts in the U.S. are the Northeast, the Great Lakes and the Gulf states.—**W.G.F.**

Concorde grapes

Your trip on a Concorde isn't long enough to do much sipping, but the wines served at Mach 2 these days are in keeping with the $3,210 one-way fare from New York to London.

British Airways recently asked wine author Hugh Johnson and Christie's wine expert Michael Broadbent to create a Concorde cellar. (Prices are what you'd pay at Sherry-Lehmann in Manhattan to stock up at home.) On each BA Concorde flight, passengers are offered one of the following *Champagnes*: Moët et Chandon Cuvée Dom Pérignon 1980 ($58); Veuve Cliquot Ponsardin La Grande Dame 1979 ($55); G.H. Mumm Cuvée René Lalou 1982 ($55); Krug Brut, Grande Cuvée ($50). *White Burgundies:* Chablis Grand Cru, Les Preuses, Domaine de la Maladière 1986 ($11); Puligny-Montrachet, Clos du Vieux Château, Labouré-Roi 1986 ($45); Meursault 1er Cru, Poruzot, Domaine René Manuel 1985 ($25); Puligny-Montrachet, Les Folatières, Joseph Drouhin 1986 ($35);

Beaune, Clos des Mouches, Joseph Drouhin 1986 ($45). *Red Bordeaux:* Domaine de Chevalier 1983 ($40); Les Forts de Latour 1976 ($33); Les Forts de Latour 1978 ($55); Château Talbot 1978 ($21); Château Lynch Bages 1983 ($25).

Air France, which changes its Concorde *carte des vins* monthly, is currently serving the following *Champagnes:* Cuvée Laurent Perrier Grand Siècle ($50). *White Burgundy:* Chassagne Montrachet 1982 ($35); *Red Burgundy:* Corton 1984 ($28). *Red Bordeaux:* Château Couvent des Jacobins 1982 ($35). *Sauternes:* Château Rieussec 1984 ($7).—**W.G.F.**

Sotheby's Art Market Trends

Index sectors	May 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two year % change	Five years % change	Five years Average annual % change
Old Master paintings	373	373	329	303	212	nil	+13.4	+23.1	+75.9	+12.0
19th-century European paintings	347	333	303	249	185	+ 4.2	+14.5	+39.4	+87.6	+13.4
Impressionist & Post-impressionist art	1,091	723	521	380	267	+50.90	+109.4	+187.1	+308.6	+32.5
Modern paintings (1900-1950)	1,090	757	544	364	245	+44.0	+100.4	+199.5	+344.9	+34.8
Contemporary art (1945 onward)	728	609	597	524	366	+19.5	+21.9	+38.9	+98.9	+14.7
American paintings (1800–pre-WWII)	958	871	698	667	452	+10.0	+37.2	+43.6	+111.9	+16.2
Continental ceramics	407	407	320	284	263	nil	+27.2	+43.3	+54.8	+ 9.1
Chinese ceramics	684	581	550	493	445	+17.7	+24.4	+38.7	+53.7	+ 9.0
English silver	388	388	343	314	209	nil	+13.1	+23.6	+85.6	+13.2
Continental silver	260	220	201	190	156	+18.2	+29.4	+36.8	+66.7	+10.8
American furniture	469	469	451	333	239	nil	+ 4.0	+40.8	+96.2	+14.4
French & Continental furniture	355	324	299	285	249	+9.6	+18.7	+24.6	+42.6	+ 7.4
English furniture	720	657	594	447	282	+ 9.6	+21.2	+61.1	+155.3	+20.6
Aggregate index*	650	517	430	351	259	+25.7	+51.2	+85.2	+151.0	+20.2

Basis: 1975 = 100 ($). ©Sotheby's 1988

*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Index highlights

Exceptional auction results in May boosted the aggregate art index figure by 133 points. The rise in Impressionist and modern art alone accounted for 80% of this increase.

New price benchmarks for Impressionist and modern artworks were set for a number of artists, among them the leading names of the era, such as Cézanne, Degas, Matisse and Renoir. Sculpture produced excellent results too. A bronze statue of a ballerina, "Petite Danseuse de Quatorze Ans" by Edgar Degas, fetched $10.12 million, the highest auction price ever paid for sculpture. And a Japanese buyer set a new record for Cézanne, paying $9.24 million (almost double the estimate) for "La Cote du Galet à Pontoise."

Japanese buyers purchased about one-quarter of the major works. No doubt the prices in yen seemed competitive compared with prices in dollars.

Contemporary art has also been going from strength to strength, with several new records set. "Search" by Jackson Pollock sold for $4.84 million, establishing a record not only for the artist but for any contemporary work of art at auction. Another painting by Pollock, "Number 20, 1949," fetched $1.76 million. Both examples were acquired by Japanese buyers, underlying their continuing interest in contemporary art and the influence of the strong yen.

Sotheby's

Rare decorated vase from the Ming period

Monthly highlights

Auctions around the world were very buoyant. Sales of Chinese ceramics in Hong Kong included a special single-owner collection of 117 lots of Ming and Qing porcelain, considered one of the finest to have come onto the market in recent years. The highlight of this sale was a copper-red early Ming vase, which sold for $2.2 million, the highest sum paid for a piece of Chinese porcelain and significantly higher than the previous record. Many buyers, from Japan and Taiwan, showed interest in Qing wares. Subsequent sales of Chinese porcelain in New York and London added further strength to this sector.

A much-watched TV program claimed that Vietnam turned American fighting men into psychological basket cases. Ever hear of shell shock, Dan, baby?

Nam returnees make good

By Dyan Machan

NEARLY 15 YEARS after the last American serviceman left Vietnam, a nasty myth still ngers. It says that Vietnam was dif- ent from other wars, in that the ulk of the Americans fighting there nded up as psychotics. Typical was a ecent Dan Rather prime time special n CBS, claiming that as many as 1 illion Vietnam veterans could be uffering from something called post- raumatic stress disorder.

Rather is not, of course, oted for his sense of his- ory. He has perhaps not eard of the "shell shock" f World War I or the "bat- e fatigue" of World War . In any case, he is plain rong. A $23.4 million ationwide study released n May by the U.S. Cen- ers for Disease Control in tlanta shows that 90% f Vietnam veterans today re leading normal, suc- essful lives—a percent- ge that is roughly the ame for Army veterans ho never spent a tour of uty in Vietnam.

In fact, the business orld is rife with Vietnam eterans who have suc- eeded handsomely in ci- ilian life. To illustrate is point, FORBES made a w phone calls and easily ound a number of Viet- am veterans who had ansformed the horrors of their experience into positive factors in their lives. Here are three:

Edward Vick, 44, is president and chief operating officer of Ammirati & Puris, a successful Manhattan advertising firm. Vick spent a year during 1968 and 1969 on a river patrol craft in the Mekong River, both near the Cambodian border and in the Delta.

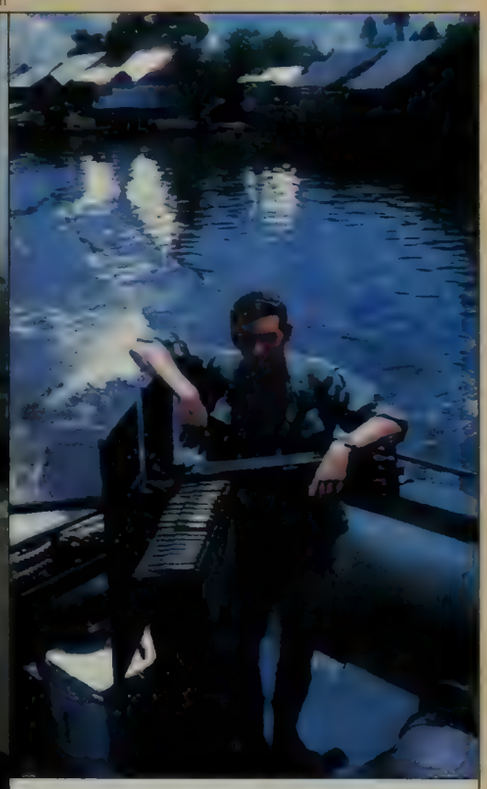
Later, when he had returned to civilian life and joined the New York-based Benton & Bowles advertising agency as an assistant account executive, Vick says, he wasn't much ruffled by deadlines. After what he had been through, such things were petty crises. Says he: "These sorts of problems just weren't the end of the world. You see, I already knew what the end of the world really was—and this wasn't it."

Vick came home to no heroes' welcome. He recalls: "People had the attitude that if you were in the war you were either an idiot or a baby killer." Rather than taking that sentiment as an expression of rejection, Vick viewed it as a challenge, and he set out to prove the perception wrong. Says he, "It got me into a drive mode that hasn't let up since."

A. Malachi Mixon III, 48, is chairman, president and chief executive officer of Invacare, an Elyria, Ohio medical equipment manufacturer. Vietnam to him meant learning to "meet objectives no matter what." As a U.S. Marine Corps captain directing air strikes in and around Chu Lai and later Da Nang, he says he developed a stoicism and inner resolve that has stayed with him. Says Mixon, "Bring on the problems, there's not much you can throw at me that I haven't seen."

Mixon recalls his first night back on the U.S. mainland, in 1966, when he attended a cocktail party in California with his wife. No one at the party had the slightest interest in discussing

Scott Osman



Ed Vick, Ammirati & Puris president
Perspective from knowing what the end of the world really was.

Vietnam with him one way or another. Instead of feeling crushed, the proud ex-Marine shrugged and enrolled in Harvard Business School. In 1968, an M.B.A. in hand Mixon went to work for Cleveland's Harris Corp. as a management trainee, and then moved on to Technicare, a diagnostic imaging equipment maker.

Military service is a good vehicle for learning leadership skills, says Mixon, noting that business schools today are sorely deficient in teaching those skills. But military life and a bout with cancer ten years ago also taught him something else: just how short, precious and fragile is life itself, and thus how important it is for people to chase their dreams while they have a chance.

Chasing his dream to be his own boss, in 1979 Mixon organized a leveraged buyout of Invacare, Technicare's patient aids division. Since then, Invacare has grown from a $19-million-a-year business to 1987 revenues of $131 million. Today Mixon lectures community groups to encourage people to take the plunge and become entrepreneurs. Risky? Not compared with the risks he took regularly with his life during the war.

Bruce Zake

Malachi Mixon, Invacare chairman
As a Marine captain, directing airstrikes, developing resolve.

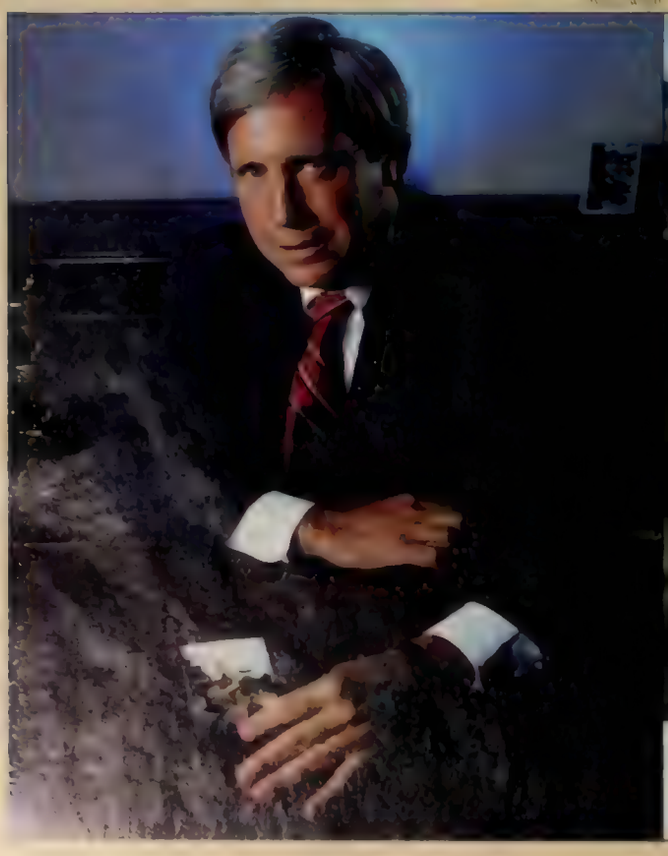
Dayton Ogden, 43, is chief executive officer of SpencerStuart, a New York-based executive recruiting firm. In 1970 he was a U.S. Navy lieutenant (junior grade) in command of a Mekong Delta river patrol boat.

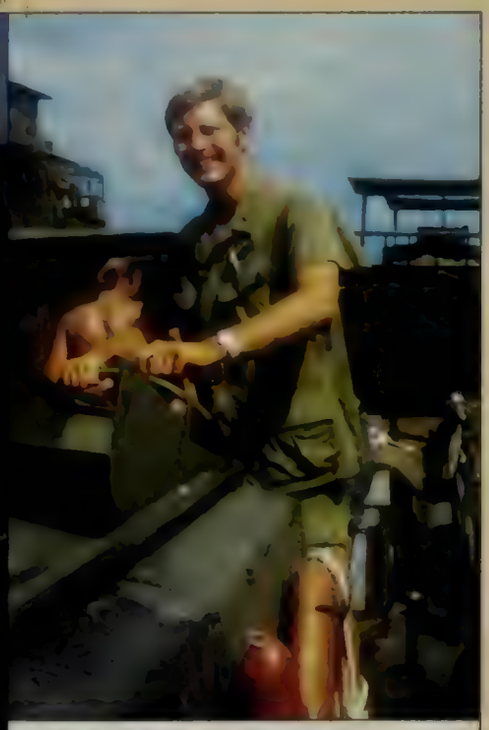
What did his wartime experience teach Ogden? He says that it taught him a lot about decision making and leadership. Says Ogden: "Courage isn't ducking fire. Any jackass can do that. Courage has to do with making hard personal choices. The business world is a much more complex, challenging environment than Vietnam ever was."

The war indirectly got Ogden into his present field. When he was discharged from the Navy in spring 197 his old job at the Port Authority of New York and New Jersey was waiting for him. But after Vietnam it was too staid, and he soon found himself in the faster-paced search business.

In powerful ways, both good and bad, all three men were affected by the war. Vick, now married for the third time, says he thinks of the war more than he'd tell anyone. Mixon had trouble flying in airplanes for a good while after he came home and he felt uncomfortable without a pistol nearby. All of them, however, got on with their lives.

These men, though more successful than most, are typical of the vast majority of Vietnam veterans. They fought a war they didn't win, but they are scarcely the first army in history to do that. It does them a terrible injustice to project upon them the guilt that a articulate portion of the population feels right now about that particular war. ■





Dayton Ogden as SpencerStuart chief and 18 years ago in Vietnam
Business requires more courage.

Faces
Behind the Figures

Edited by Jerry Flint

'otato power

'm going to stick around for a while. I'm getting a little old, but I ave a lot of irons in the fire and ings are going good," says J.R. (Jack) mplot, Idaho's potato king, who ill be 80 in January.

Simplot started as a pig farmer but ecame famous as the grower behind cDonald's french fries. His closely eld company generates an estimated 1.1 billion in sales, and his latest enture is Western Power Co., which roposes a 600-mile, $700 million ower line to Nevada from which the e electricity would move south.

Simplot foresees coal from the great en pit mines in Wyoming being urned in 100 or so plants in Idaho, ith the Snake River providing the eeded water. In the summer the ower could run the air conditioners the Southwest; in the winter Idaho ould use it.

Naturally, there are problems: envinmentalists, mainly. But that esn't kill his enthusiasm. "We've t something big here. How far I get esn't make any difference, because ee something big in the Snake River alley. A thousand megs of electricity a big investment, and if someone esn't say or do something about it, won't get done," Simplot says. He and the other investor, Southern Electric International, the nonregulated arm of the Southern Co., have split the $1.2 million in costs so far.

Why not stick to potatoes? Man, it turns out, does not live by potatoes alone. "The energy project is much bigger than potatoes," he says. "You can't compare them."—**Gary Eisler**

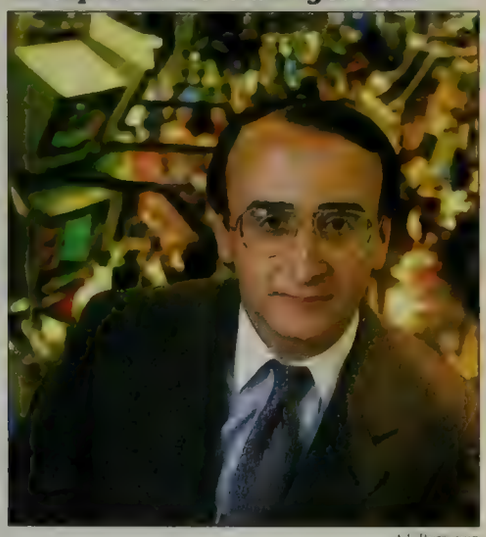
David Frazier

. Simplot, Idaho's potato king
urn coal in Idaho and ship the power: "Much bigger than potatoes."

Bring on the business

When Richard Grasso was getting ready to become president of the New York Stock Exchange, he said his major goal would be shaping the system to handle 600-million-share trading days. Now that he is president—he took the title in June—too little trading, not too much, is the problem. Gross volume on the Big Board has been down about 17 million shares a day compared with the same period in 1987, and there is less to that than meets the eye. "A lot of today's volume," Grasso points out, "is due to dividend capture strategies and merger and acquisition candidates." It's not just the well-reported absence of the little guy, fearful of the violent swings, sometimes blamed on program trading, that worries him.

Richard Grasso, Big Board president
He expected more and got less.



A.J. Berr stein

"Some institutional investors are also leery," Grasso says.

Despite this, Grasso resists the idea of banning the controversial program trading. "The program traders have been major participants in our markets for the last five years. They have committed major funds to their activities. If we were to ban their trading, those funds would be committed elsewhere, either in another domestic market or overseas."

"If we ban program traders, where do we draw the line?" asks Grasso, 41, who started with the Big Board in 1968 when he was 21, working his way up the ladder from a corporate listings representative.

He claims that the Big Board's technology has improved so much that "by the end of the year we should be able to make a 600-million-share day look like a 225-million-share day. And we should be able to handle billion-share days by the end of 1989." The question is, will the business be there?—**Stanley W. Angrist**

Captain Video

Gregory Fischbach is hot. The videogame market is once again booming, and Fischbach's 16-month-old company, Acclaim Entertainment Inc., is cleaning up by selling games like Rambo, Wizards & Warriors, and the forthcoming WrestleMania (starring the likes of Andre the Giant), all designed to be played on the Japanese Nintendo game system.

Fischbach is a 46-year-old graduate of San Francisco State, former Peace Corps volunteer and rock 'n' roll lawyer who represented acts like Crosby, Stills & Nash, Boz Scaggs and the Steve Miller Band. He started Acclaim last year after leaving the presidency of RCA/Ariola Records Interna-

Richard Derk

Gregory Fischbach of Acclaim Entertainment, and Andre the Giant
Playing business is much more fun.

Faces
Behind the Figures

tional with a substantial settlement, following the company's sale to West German media giant Bertelsmann. His investment, with partner James Scoroposki: $50,000 in cash and a $150,000 loan to the company. Since October the company has sold over a million videogame cartridges; and in the first six months of fiscal 1988 Acclaim earned $2.7 million pretax on revenues of $15.8 million.

Revenues could grow to $100 million a year, he hints. He should know. Fischbach ran the international division of Activision from 1983 to 1986 as Activision's sales erupted from $6 million in 1981 to $158 million in 1983, only to sink back to $27 million in 1987. Better safe than sorry, so he's keeping his videogame company lean with fewer than 25 employees, compared with Activision's roughly 400 in its heyday.

Any qualms about selling kids a game in which they can refight the Vietcong, this time with Rambo on our side? He thinks for a while and then says: "The games are just games." Fischbach, in any case, likes the way grown-ups play. "The business game," he says, "is more fun than any videogame I have ever played."—**Fleming Meeks**

Bull Market U.

I didn't have anything to wo about until I got over $20 mill Now I worry all the time," says Ke Briscoe, the president of Buena (p nounced BOONA) Vista College Storm Lake, Iowa. Briscoe plays market with the endowment mon

FORBES reported in 1986 that college had received $3 million a y for six years from an oilman— while the six years were just end and $15 million had been spent on college, thanks to the investme $16 million was left. The actual vestment decisions are made by Jo Templeton (the mutual fund man er), a member of the board of trust of Buena Vista. The profits, it tu out, just fed the fever.

"The buildings were done, so left everything in the market and tr to parlay it," says Briscoe. "We w up to $31 million, then after the Oc ber crash we were down to $27 m lion, but we still had a 5%-to-6% g for that year, and that's the day af Black Monday. The endowment back past $30 million now."

Briscoe has used some of school's endowment to help bu strong business and mass commu cations schools. "I don't have a nuc ar reactor, and I do not teach nucl physics, but the business school l every bit of needed equipment," s he. "An accounting student can over and produce a five-minute vic show, write it and direct it." W would an accountant want to do th "Because most accountants can talk. This will help them articulate the customers," he explains.

Most of Buena Vista's 950 studen come from rural Iowa. "Our missi is a good fundamental education, a we believe our type of students c

Eli Reed

Buena Vista President Keith Briscoe
Parlaying the endowment fund.

Sonia Katchian/Photo Shuttle, Japan

Eigo Takatsuki, president of Sanyo Shokai, Japan's leading coatmaker
A weakness for designer labels made the company prosperous.

live and compete in the world market. But we must give them exposure and confidence building," he says.

Briscoe is also a strong believer in the Pacific Rim theory, that the centers of economic power are moving from the North Atlantic toward the Far East. "We're teaching Japanese and Chinese on an undergraduate level," says the college president. "We think that's the future."—**J.F.**

Runaway manufacturer

Here's a turning worm: A major Japanese clothing manufacturer has moved some of its garment production to the U.S. to hold down costs. The company is Sanyo Shokai, Japan's dominant coatmaker. Just one year ago Sanyo opened a $4.5 million factory in Oneonta, N.Y., making skirts and coats and jackets for men and women. Some 100,000 garments were produced there in the last year. The U.S. production is necessary, of course, to offset the rise of the yen.

Sanyo's president, Eigo Takatsuki, explains his company's success in Japan by pointing to his countrymen's weakness: "Japanese have a weakness for brand names," he says. "And we like showing off good products."

The Japanese coatmaker used this trait to advantage, prospering by licensing production of foreign designer labels such as Yves Saint-Laurent and Bill Blass. The status-conscious Japanese eat them up. Sanyo scored its biggest coup winning the right to make Burberrys raincoats in Japan in 1970. Last year Takatsuki sold 160,000 Burberrys, which retail for an impressive Y150,000 ($1,200 at today's rates) in Japan.

The coats have become almost part of the uniform of Tokyo's middle-aged salarymen and younger executives. "The new Japanese rich seek better goods," says Takatsuki, who has captured a 24% share of the Japanese coat market. Result: Sanyo, the coatmaker (which is not connected with Sanyo, the electronics company), earned $32 million net on sales of $800 million last year.

But Takatsuki, 54, who became president in 1983, puts the Sanyo name on the garments in the U.S., not some other designer label. He sells through quality department stores such as Bloomingdale's, Saks Fifth Avenue and Marshall Field's, with his coat prices ranging from $280 to $445. The results: so far, so good. "Our Sanyo coats are being accepted by Americans," Takatsuki declares proudly.—**Hiroko Katayama**

Holy cow

Roy Lichtenstein had dots, Andy Warhol had soup cans. With me, it's cows. I like the way they look, the way they stand out against the greens and browns of the rural landscape," says William R. (Woody) Jackson.

Jackson's particular passion is black-and-white Holsteins. Five years ago he started Holy Cow, Inc. to sell T shirts with his cow images. Bandannas, mugs, calendars and bowls followed. There is a mail-order catalog of objets de cow, and more than 1,000 gift shops, boutiques and department stores, including Macy's and Fortunoff, sell the cow-laced items. Holy Cow expects revenues, all from direct sales, to run $1.5 million for the year ended June 30.

Jackson, 39, was an African and Asian history major at Vermont's Middlebury College. "But I knew I liked to paint and that I liked cows." After college he worked as a handyman in Vermont's dairy country and was able to study and photograph and paint them. There were a dozen years when he earned less than $2,000. His big break came in 1983 when Ben & Jerry's, the popular ice cream company, chose his cow motifs for its trucks and serving dishes. Today his Holsteins have practically achieved cult status.

But will the financial success, and the emphasis on Holsteins, hurt his art? "You don't want an artist to change too much," says Jackson, who lives in an 1820s farmhouse in Vermont. "He has to build off what he's done."—**Robert T. Grieves**

Perry Alan Werner

Painter William Jackson and the objects of his affection
His cows are sold in more than 1,000 stores.

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Washington Crossing the Delaware, Emanuel Leutze 1816-1868

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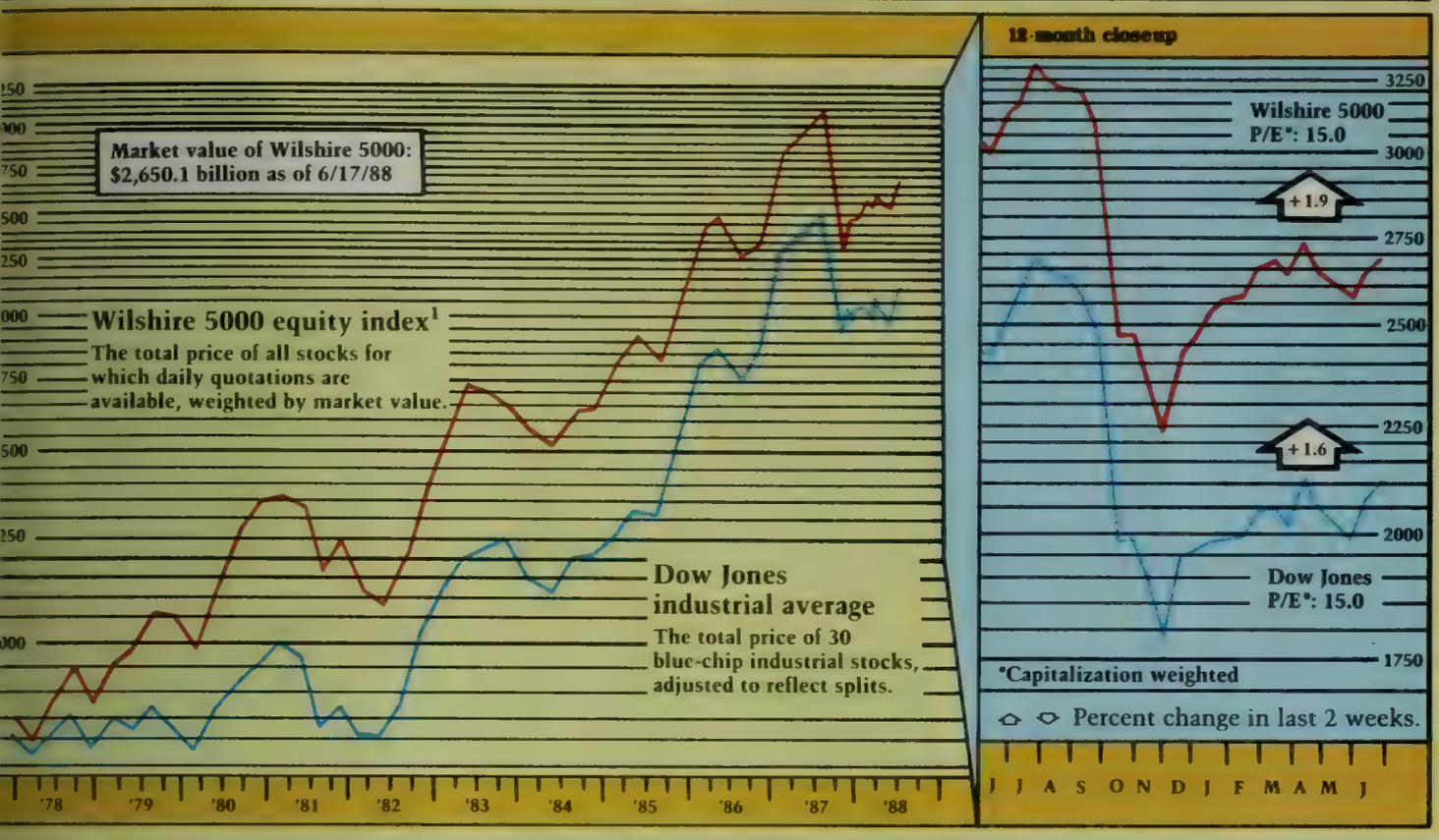
The Metropolitan Museum of Art

Photo: Brian Rose

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Crossing lines. With the Dow rising almost steadily for a month, it has finally broken above its 200-day moving average. Chart fans see that as a bullish sign, just as dropping below the 200-day average after months of exceeding it is supposed to be a bearish sign. (The Dow fell below its moving average two days before the crash in October, but that doesn't mean chartists all got out in time.) During the two weeks ended June 17, the major indices established new postcrash highs before retreating slightly. For the fortnight, the Dow was up 1.6%, the NYSE 1.7%, the Nasdaq 2.7% and the Wilshire 1.9%.

No matter which indicator is used, the market is still way off from last year. The Dow shows the worst 52-week performance, a loss of 13.1%. NYSE shares are down 11.4%, Nasdaq shares down 9.8% and Wilshire stocks down 11.1%.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
In last 4 weeks	6.7	7.0	7.8	6.7	4.7	5.7
In last 52 weeks	–11.1	–11.7	–13.1	–11.4	–10.1	–9.8

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
In last 4 weeks	7.6	4.4	10.1	3.4	5.4	4.2	3.9	7.8	7.3	4.3	6.3	3.8
In last 52 weeks	–6.2	17.4	18.7	4.6	–3.3	–1.1	0.0	23.4	16.2	3.6	–2.2	14.2

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

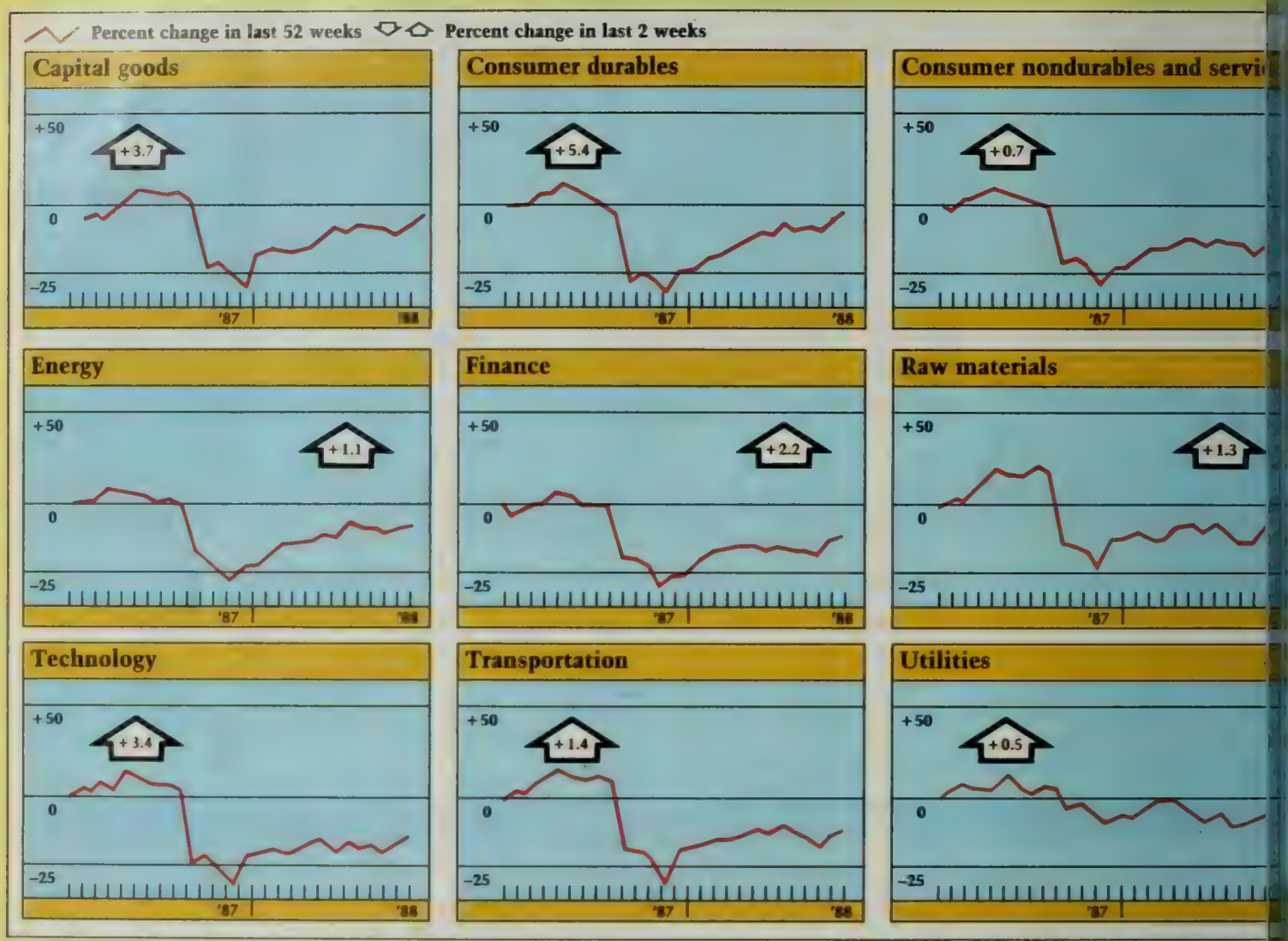
Note: All data for periods ending 6/17/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Rubin

Where the Action Is

Volatility is still with us. When SmithKline Beckman announced on June 16 that 1988 earnings were going to be down 5% to 10%, the stock fell 9¼ points, to 45¾. It was long-awaited evidence of a topping out for the blockbuster antiulcer drug Tagamet, which presently contributes just over a quarter of the firm's revenues. SmithKline said that increased competition will prevent Tagamet from reaching 1987 U.S. sales levels.

On June 17 trading volume on the NYSE was over 3 million shares as the market digested "triple witch hour" (when options and futures expire on the same d Volume for the two-week period was led by Occider Petroleum, which turned over 144 million shares, wo approximately $3.9 billion, in a dividend-related play.



What the Analysts Think

Energy prices firming? Over the last four weeks analysts increased their 1988 earnings projections by 3% or more for energy and raw material stocks. Consumer durables also enjoyed a 3% estimate gain. More recently, the m ket has been quieter. Over the last two weeks energy the only sector to show an increase of more than 1%.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.78	13.8
1988 estimates	3.56	10.8
1989 estimates	3.92	9.9

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estim in 2 weeks	% change in 1988 estim in 4 weel
1	Energy	$3.01	12.9	1.10%	4.26%
2	Capital goods	2.59	14.6	0.76	0.83
3	Consumer durables	4.39	12.1	0.62	4.39
4	Raw materials	3.01	10.7	0.53	3.18
5	Technology	2.87	12.1	0.14	0.38
6	Transportation	2.48	11.0	–0.05	0.55
7	Utilities	2.41	10.0	–0.06	–0.39
8	Finance	3.41	8.3	–0.14	–0.66
9	Consumer nondurables	2.50	13.0	–0.16	–0.14

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Bro Estimate System, IBES, a service of Lynch, Jones & Ryan, a New York-based brokerage firm

All data for periods ending 6/17/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

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One of the great mysteries of Wall Street is why people buy closed-end funds at a premium. Another mystery is why they don't buy them at a discount.

Stocks on sale

By Edward F. Cone

A YEAR AGO Ladenburg Thalmann & Co. underwrote shares of Clemente Global Growth fund. The market was hot, international investing was hotter, and Ladenburg's brokers hit the phones. The public gobbled up $60 million of shares at an 8.3% premium to the assets they represented.

And now? Clemente Global is slogging along on the Big Board at a 28% discount to its net asset value. For $72, you can get $100 worth of the stocks in its portfolio. The brokers aren't calling up with sales pitches anymore. Maybe that's because there is less money in it. Underwriting spreads on new issues of closed-ends typically run 7%. Commissions on secondary trades are closer to 1%.

FORBES is not clairvoyant. We can't tell you whether foreign stocks will go up or down. But we can tell you that if you do want international diversification, it makes far more sense to buy the foreign portfolio at a 28% discount than at an 8% premium.

Throughout much of the 1982-87 bull market, many closed-ends traded at very small discounts or even premiums to net asset value. Last year, though, closed-end funds fell behind. While the Dow roared ahead for the first eight months of 1987, share prices for closed-ends lagged, making the discounts to net asset value wider.

In the crash those discounts didn't shrink. Quite the contrary: Panic selling was even greater among closed-ends than among shares of operating companies. The Herzfeld Closed-End Average, a measure tracking 20 such U.S. funds, was at a discount of almost 17% by year-end, vs. about 1% at the beginning of the year.

Today the average discount has eased to 12.6%, but there are still bargains to be had. Nicholas-Applegate Growth Equity Fund, a closed-end run by the comparatively unknown Arthur Nicholas in San Francisco, was recently trading on the NYSE at a hefty 17.5% discount to the value of its portfolio. The broker's commission would narrow the bargain a bit, but you would still be buying dollar bills for about 82 cents apiece. "As the market rallied, our shares just got left behind, while the underlying assets screamed upward," says Nicholas. "If you like the market, this is the time to be in discounted funds."

Why do closed-ends go to a discount? One reason is a lack of liquidity. You can redeem open-end shares for asset value at any time—selling them back to the sponsor—but to bail out of a closed-end you must find another investor willing to take the shares off your hands.

Another reason is the deadweight of management fees and overhead expenses, and the fear that those expenses could rise, trapping the helpless shareholders. Shareholders can't vote with their feet the same way that open-end holders can. (That is, they can sell, but only to a buyer who will be stuck with the same overhead.)

But the biggest reason for closed-end discounts is probably the simple law of supply and demand. A proliferation of funds in the mid-1980s, sold with the help of hefty underwriting fees to retail brokers, has saturated the market. Institutional interest in closed-ends appears to be small, so when individuals don't feel like buying, the discounts can widen. Says fund manager John Neff, who runs the Gemini II fund for the Vanguard Group, "The garden-variety closed-end fund will trade at a 10% discount in perpetuity due to benign neglect alone."

Thanks to his stellar success with Gemini I, which was liquidated in 1984, and with the open-end Windsor Fund, Neff has a following. Gemini II is currently at a discount of only 4%. For Neff, however, this is pretty cheap. (A note on so-called dual-purpose closed-ends, like Gemini: Newspapers report separate premium/discount figures for the in-

Stocks at a discount

Some closed-end funds are trading at fat discounts to the value of their portfolios. If the discount shrinks, today's buyer will get an upward kick in total return. The risk: a bear market that would widen the discount.

Fund	Share price	Net asset value	Discount	Yield
Adams Express	15⅞	$17.39	8.7%	2.3%
Baker Fentress	40½	50.18	19.3	3.5
Blue Chip Value	6	7.38	18.7	3.3
Clemente Global	6⅜	8.82	27.7	NA
Gemini II Income	13⅛	9.55	4.0	8.8
Gemini II Capital	12⅛	16.77		—
General American Inv	15⅜	19.04	19.2	2.3
Lehman Corp.	12¼	14.43	15.1	4.9
Libery All-Star	6¾	8.33	19.0	9.8
Nicholas Applegate	7¼	8.79	17.5	NA
Quest for Value Income	10	11.72	19.0	8.7
Quest for Value Capital	8	10.50		—
Royce Value	8¼	9.44	12.6	6.1
Schafer Value	7¼	8.78	17.4	4.3
Tri-Continental	21¾	25.14	13.5	3.9
Worldwide Value	15⅛	19.40	22.0	0.6
Herzfeld average			12.6	

NA: Not available.

come shares and the capital shares. These statistics are meaningless. Instead, consolidate one share of each type into a single unit, and figure the discount or premium on this unit.)

Miami-based investment manager Thomas J. Herzfeld, the leading authority on closed-end funds, likes to buy when a fund's average discount is five percentage points greater than the average discount for it and similar funds over the preceding six months. With the Herzfeld Closed-End Average now at some 12.6%, many closed-ends currently look attractive *(see table)*. Herzfeld sees 1988 as a good year for closed-end investors. Concurs Merrill Lynch analyst Dean Eberling, "There are significant opportunities out there."

Not, however, for in-and-out traders. As Eberling points out, bear markets can do double damage to closed-ends, since the discounts can widen while assets decline. The buy-and-hold player, however, will find value here. If the discount remains in place, he will enjoy larger dividends than he would on similar portfolios bought at full net asset value. And if he's lucky, he will see the discount shrink over the next five or ten years, providing an extra capital gain. ■

Statistical Spotlight

Pickings are a good deal slimmer than they were in June 1932, but there are still companies selling cheaper than their assets.

Balance sheet plays

By Jason Zweig

In an article in the June 1, 1932 Forbes, the brilliant investor Benjamin Graham pointed out that over a third of 600 industrial stocks on the New York Stock Exchange were selling at less than the value of their net working capital—current assets minus all liabilities—and another 50 were selling for less than the amount of cash and marketable securities on their balance sheets. Those stocks, he felt, were "suffering a fantastic undervaluation." It was a good time to buy. The market quadrupled over the next five years.

Stock prices are a good deal higher now in relation to the assets they represent. It appears that there are no NYSE companies selling for less than their net quick assets, and none selling for less than the amount of cash on hand. But members of the Graham school of value investing haven't given up. They have simply relaxed their criteria a bit. While they can't easily turn up screaming bargains, they do have some success finding takeover candidates.

Among the better-known Grahamites are Michael Metz and Norman Weinger, managing directors at Oppenheimer & Co., who start their hunting on IBM PCs attached to a database of 7,000 stocks. Their little computer can't intelligently pick stocks, but it can provide a list of plausible prospects.

One list of prospects comes from a screen on the ratio of cash per share to market price. The Graham cutoff of 1-to-1 is too tough these days. Instead, Metz and Weinger look for a ratio of 0.35 or better, and turn up 283 companies. While many have some good reasons to be trading so cheaply, a handful look like good buys, they say. Among the better-known names are Ford (with cash at 45% of the company's market value), Boeing (49%)

and casino operator Golden Nugget (83%). Others are Atlantis Group, a plastics producer (154%); National Presto Industries, an appliance maker (69%); and Skyline Corp., a manufacturer of homes and travel trailers (61%).

The problem with this crude screen, of course, is that it doesn't adjust for debt outstanding; the common shareholder, after all, stands in line behind creditors. A company with a lot of cash could have negative working capital (that is, have more current liabilities than current assets).

So why not start with working capital? Metz and Weinger, in a variation on the cash theme reminiscent of 1932 Graham, subtract long-term debt from working capital to arrive at net working capital. Net working capital gives no credit for fixed assets (like buildings and machinery), so they add to it an estimate of "scrap value" for the fixed assets. (Note again how Ben Graham has been watered down: He allowed nothing for fixed assets.) The scrap value estimate is set at 20% of the original cost of fixed assets. The original cost, not available on all computer databases, is the sum of plant and equipment and accumulated depreciation.

The computer screen turns up 97 companies trading for less than their net working capital plus scrap. Among them are CPT Corp., a moneylosing business computer maker; Fischbach, an electrical contractor suffering from the predations of Victor Posner (FORBES, *June 29, 1987*); Dutch electronics giant Philips, which is suffering from the weak dollar; and Whitehall Corp., a military contractor recently barred from government work in one of its business lines. These and eight other companies are shown in the table below.

Acey Harper Picture Group

Oppenheimer's Weinger and Metz
"The market is fabulously inefficient."

The database Metz and Weinger use is Standard & Poor's Compustat, available through such software as Lotus One Source, FactSet or PC Screen. The full Compustat database starts at a prohibitive $15,000 a year, but small investors can affordably get or pay for access to similar databases on a per-use basis (FORBES, *June 27*). Says Metz, "Anybody can do it. In fact, there's no reason you can't do it better than we." That's because the remaining bargains tend to be obscure companies in which institutional investors can't establish meaningful positions without pushing the price up.

There's more to stock picking than mechanical number crunching, of course. The computer can only provide leads. A number of companies that look terrific on the basis of the last quarter's balance sheet turn out to be something else again. A computer, for example, will tell you that Coated Sales and Crazy Eddie, both facing write-downs or accounting restatements, are cheap. The one thing Metz and Weinger steadfastly ignore is earnings forecasts.

Can you really make money buying run-down companies that are sitting on valuable assets? Playing into Metz' and Weinger's hands has been the host of corporate raiders who are looking for the same sorts of bargains as they are. In the last few months, the screens have flashed advance buy signals for such takeover targets as Murray Ohio, J.P. Stevens, Sterling Drug and Mohasco.

"It's a lonely business," says Metz. "There's always the fear that maybe the market is smart and really is pricing these things well. I don't believe that's true." He pauses, then adds with the smile of a canary-swallowing cat, "I think the market is fabulously inefficient." ■

Wanted dead or alive

These companies, sifted out of Oppenheimer & Co. asset screens, seem to be worth more dead than alive. Earnings, which Michael Metz and Norman Weinger don't even consider, are in most cases very weak.

Name/business	Recent price*	Cash	Working capital[1]	Net working capital[2]	Scrap value[3]	Liquidation value[4]	Liquidation value-to-price
Beeba's Creations/women's clothing	7½	$0.84	$9.24	$9.24	$0.14	$9.38	1.25
CPT/word processors	1¾	1.33	3.81	1.50	0.85	2.35	1.34
Enterra/energy	6⅝	2.33	2.39	1.86	7.32	9.18	1.44
Fischbach/electrical contracting	9½	3.65	16.97	8.55	8.67	17.22	1.81
Fischer & Porter/industrial instruments	13¾	1.91	16.41	14.42	3.39	17.81	1.34
Gordon Jewelry/retail jewelry chain	16⅞	0.28	15.56	14.18	2.90	17.08	1.06
Molecular Genetics/genetic engineering	3⅛	4.39	4.50	3.91	0.24	4.15	1.33
Philips NV/Dutch electronics mfr	15¾	4.00	20.31	1.14	18.95	20.09	1.28
Suave Shoe/shoe mfr	7⅝	1.20	8.75	6.32	2.73	9.05	1.19
SKF AB/Swedish bearings mfr	45⅝	16.16	53.28	35.68	20.48	56.16	1.24
TIE Communications/telephone systems	2⅝	1.36	3.68	2.19	0.58	2.77	1.06
Whitehall/earth sciences	10⅞	7.15	14.44	14.44	3.55	17.99	1.65

[illegible] current liabilities [2]Working capital less preferred stock and long-term debt [3]20% of gross plant and other assets [4]Net working capital plus [illegible] [illegible] liquidation value to price and are figures per share

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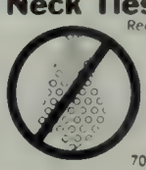

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Not much is left of the WPPSS 4 and 5 bonds. Maybe the time has come to exit and leave the carcass for the lawyers.

ENDGAME FOR WHOOPS

By Ben Weberman

Speculators are getting excited again about the defaulted bonds of the Washington Public Power Supply System, popularly known as Whoops. The bonds that financed project numbers 4 and 5 are trading at around 12 to 14 cents on the dollar, largely on hopes for recoveries from lawsuits—not likely, in my opinion, to exceed $500 million. Lawyers' bills, however, would eat up a sizable chunk of any settlement. If gambling on the whims of judges and juries is not for you, sell these bonds.

The WPPSS fiasco is, of course, familiar to anyone who has ever thought of investing in tax-free bonds. The $2.25 billion of bondholders' money raised for projects 4 and 5 went into nuclear plants that are not completed and never will be. Supposedly, the debt was backed by take-or-pay promises from municipal utilities in Washington. Then the Washington State Supreme Court handed down its landmark 1983 decision, allowing the municipal utilities to walk away. The promises didn't count because the utilities had their fingers crossed, or something like that.

As it now stands, the principal asset backing projects 4 and 5 bonds is a pile of lawsuits against WPPSS, its participating municipal utilities, various state officials and WPPSS directors. Some defendants have agreed to settlements totaling $275 million. The plaintiffs are seeking settlements from the remaining defendants approaching $900 million against settlement offers not exceeding $150 million. Both sides undoubtedly prefer a settlement to a trial. All told, perhaps $500 million may be available for carving up. Hold on. Before gloating over that number, consider that Chemical Bank, acting as trustee for investors, has already paid out more than $54 million for legal expenses. Other legal fees of the plaintiffs could top $50 million, money that would have to be deducted from any settlement. The pot for investors, then, could be less than $450 million. Split among $2.25 billion face value of bonds, that's about 20 cents on the dollar. Sales of assets scavenged from projects 4 and 5 could add another nickel or more.

And who's going to get the two bits? Assuming, for the moment, that there were no cash from lawsuits, recent buyers would be out 14 cents per dollar of bond. Original owners, though, are the real victims, since they bought at 100 cents on the dollar. Logically, the earliest group of buyers will get the most. Those who buy now are gambling they will be included in a settlement. But they may not be.

A decision by the Washington State Supreme Court in May has raised hopes—perhaps not of recent investors, but at least of their lawyers. This time the court ruled that bondholders have the right to sue the state of Washington, whose auditor put his seal of approval on the bond issue.

But the biggest case, alleging negligence and fraud by over 100 defendants, is pending in federal court in Tucson, a neutral venue. Scheduled to begin in September, it could run for at least a year and a half. How much will this cost the plaintiff bondholders? No one knows, but law firms from New York and Seattle are already opening offices in Arizona. A single firm has already allocated ten litigators and six legal assistants, plus secretarial and office support. These firms seem to know a good capital investment when they see one.

But what about the solvent 1, 2 and 3 bonds? Two of these projects aren't completed either, but they aren't nearly as hopeless as plants 4 and 5, and their credit quality is infinitely higher. Here the take-or-pay promise is from the Bonneville Power Administration, a federal agency that hasn't reneged.

Nuke number 2 is finished, up and running. The 6%s of 2012 backing it trade at a yield to maturity of around 8.5%, while the 13⅞s of 2012 trade at a premium price that will result in an 8.3% yield to first call in 1992.

Project 1 construction has been halted, no more than 63% complete. Salvation would be in a sale to the U.S. Department of Energy, which could use the nuclear facility to manufacture plutonium or tritium, although there is no known shortage of either. Project 1 bonds yield around 8.6% to maturity or first call, although it is difficult to predict when or if they will be paid off in the event of a condemnation.

Project 3 bonds, like those of 1 and 2, have continued to meet their debt service, but the reactor itself is mothballed. WPPSS hopes that someday demand for power in the Northwest will justify completing project 3—but until that date, the reactor will remain in limbo, three-fourths completed.

Municipal bond analysts are divided on the 1, 2 and 3 bonds. Howard Sitzer of Thomson McKinnon Securities is bullish. "The only things comparable [in yield] are unrated junk bonds, and I don't think they approach WPPSS in security." But Gary Krellenstein of Shearson Lehman Hutton says if he had a profit on a 1, 2 or 3 bond, he'd definitely take it. ■

Ben Weberman is a senior editor of FORBES *magazine.*

The stock market is stalemated between the bulls and the boring bears. In this kind of market, value will prevail.

THREE STOCKS FOR A DULL MARKET

By Kenneth L. Fisher

Was the June rally for real? Is the market finally coming out of the doldrums? I wouldn't bet on it. But I wouldn't exactly expect the market to drop either. It seems to me that the market is trapped. It appears to be blocked on the high end by excessive valuations and high and rising interest rates that will put pressure against truly big gains. It is unlikely to fall far and fast because investor sentiment is so extremely negative.

Some folks see lots of value in today's market. But this market looks reasonably priced only if you look at P/Es and nothing else. Last summer the market sold at 22 times earnings. The market is now down 30%, and earnings are up 15%. But that still leaves you at 15 times earnings, smack dab in the middle of historical valuations. Bulls argue that the Dow Jones industrials' earnings will rise another 20% in the next year, to about $175, 12 times next year's earnings. So what?

A P/E of 12 is an earnings yield of $^1/_{12}$, or 8%. Why is that so attractive when you can buy a bird-in-the-hand bond with a 10% yield? A future P/E of 12 isn't terrible, but it's not great either.

Kenneth L. Fisher is a Woodside, Calif. based money manager. He has written two books, The Wall Street Waltz and Super Stocks.

Then there is the market's dividend yield, which is about 3.4%. Another way to say that is 29 times dividends, a level that has always led to lower prices long term. Normally the market averages about 22 times dividends, and every decade or so you can buy it below 17 times. It has always been worth the wait.

Then there is book value. The S&P 500 is now at 3.25 times its book value. To my knowledge, the only years of higher prices in relation to book—ever—were 1987 and 1928–30. Otherwise, 2.5 times book was the peak, which is the DJI's current price to book. Since 1920 stocks have averaged only 1.5 times book. Of course, bulls will argue that inflation has perverted asset values and that stocks should now sell at higher price-to-book ratios. But the 1910–25 era saw high inflation, too.

Looking at the other side of the coin, there are equally strong suggestions that the market won't drop much. Take the bearishness that prevails among so many investors. A fresh poll of the American Association of Individual Investors shows only 23% of its members as bullish. Before October's crash, 65% were. Or consider *Investors Intelligence*'s ranking of market newsletters: Recent readings show 55% of them are bearish, which is the highest level of bearishness since August 1982, when the bull market began.

Of course, a small advance may be enough to swing sentiment, which would end the rally. And that leads to my Forecast du Jour, which calls for the market to go nowhere fast—just where it has been headed all year. If it rises too far, it will run into a wall of hard valuations and high interest rates. If it drops much, it sees a world that is still so scared from last October that it panics too many sellers too fast, and creates an oversold condition, and a sentiment-based bottom.

The good news is that a flat market can be great for a good stock picker. In a bull market, almost anyone can make money. But in a basically sideways market, a good stock picker can make money when no one else does.

How do you get to be a good stock picker? The road to good stock selection is lined with value. Buy the unpopular and beat-up issues of fundamentally good companies. The key is in combining the cheap with the good. I particularly like to measure popularity using low price/sales ratios.

If the market stays flat for a while, a stock like that will do well. Why? Because it is a special situation—a justifiable takeover and/or turnaround. If it's really cheap, someone can take it over without being a greater fool. And if its earnings have vaporized but it has a strong balance sheet and unique product, high market share or low production costs, the inevitability of its turnaround will soon be obvious to all on Wall Street.

How do you find such bargains? First, don't waste time on anything that isn't statistically cheap and unpopular—I won't linger on anything that sells for more than half the market's price/sales ratio.

Then comes quality. It's harder, but look around Wall Street's garbage dump for telltale signs to ease your search. Gems are often labeled with signs like, "the largest producer of XXXXX." Another sign is where an industrial outfit's plant and capacity average five years old or less—which spells modern—which spells efficient. Brand name dominance is good, too.

A few current picks include *Inland Steel* (33), which sells for one-third of the overall market's PSR, a P/E of 7 and only 75% of book value—it's got a great balance sheet, too. Ditto for *Outboard Marine* (33), at half the market's PSR, a P/E of 10 and selling at book value. Finally, *General Host* (11) is cheap, too, but it needs a major turnaround. I'm betting it will succeed, and along the way Wall Street will figure out that America's largest chain of nurseries is a growth business. ■

MONEY & INVESTMENTS

Almost everyone now knows that FSLIC is broke. How much better off is the FDIC?

THE BEGINNING OF THE END

By Ashby Bladen

Investors who like to skate on thin ice until the last moment before it breaks had better take note of a significant shift in thinking at London's *Economist*. For many years the magazine has argued that Europeans should put up with the Yanks' foibles and crotchets because we were carrying so much of their defense burden. But recently it has expressed a growing suspicion that we are going round the bend with respect to borrowing and spending.

The June 11 *Economist* cover illustration is a metaphor that I have often used verbally—a cartoon character who has run off a cliff and hasn't fallen because he hasn't yet looked down. But the feature article, a review of America's capital markets by Christopher Wood, takes a hard look at the foundation of the federal government moral guarantees and the deposit insurance that support our financial system, and that look shakier every day. Wood bluntly calls the $1.3 trillion of moral obligations "government junk," and refers to federal government deposit insurance as "a time bomb waiting to explode."

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis.

I have long warned that the federal savings and loan insurance is a dubious proposition, but I do not *yet* have similar qualms about the FDIC, which insures commercial banks. Wood gives us the experts' assessments of both of them: The FSLIC is insolvent and has used up in one year the $10.8 billion borrowing that was supposed to hold it for three. Moreover, "estimates of the cost of liquidating the 25% of America's thrifts, which are already bust, now amount to nearly $70 billion . . . and . . . grows daily as interest compounds on the deficit. As FSLIC does not have this kind of money, the bill will—eventually—end up with the taxpayer."

What about FDIC? The *Economist*: "The FDIC has $18 billion in reserves. The Texas debacle could easily use up nearly half of that."

Wood does not say just what he expects to happen when the bomb explodes, but "if present policies of neglect continue, it is only a matter of time before depositors start questioning the ability if not the resolve of the government to stand by its guarantees, thus wreaking havoc in America's financial markets."

I have often argued that government deposit insurance was a mistake that freed the bankers from discipline that used to be imposed by skeptical depositors, but I am not yet as alarmed about the domestic prospects as the *Economist* writer Wood seems to be. My reasoning is that our biggest banks are, by and large, in the worst trouble, and no country can afford to let its biggest banks go bust. In 1931 even the impoverished Republic of Austria borrowed under the auspices of the League of Nations to bail out the Credit Anstalt.

Investing in moral obligations bonds is too complicated to explore adequately in this brief column. But a rule of thumb I used while investing a few million dollars of other people's savings is that if I can't develop a complete understanding of and confidence in something, I want no part of it. Congress meant the moral guarantees to facilitate the borrowing, or to get the borrower a better rate. But Congress did not consider the possibility that the taxpayers might have to make good on tens or hundreds of billions of dollars' worth of loans. When the crunch comes, Congress will look for any plausible excuse to squirm out of as many of them as possible. Let me repeat the rule of thumb: When in doubt, stay out.

We should get alarmed about commercial bank deposits if and when Congress lets the FDIC slip as badly as, or forces it to merge with, the FSLIC. Congress will doubtless try to renege on the moral obligations whenever it can do so without creating a disaster, but the Fed can and will create all the reserves needed to prevent so major a disaster as another domestic run on the banks would be.

In my view, then, when the crunch comes, the federal government is likely to take over the banks' assets as well as their liabilities, and we will end up with the same kind of politicized and inflationary nationalized banking system that most other countries already have. A depressing prospect, but not an especially alarming one.

It is alarming that the prestigious *Economist* is telling our foreign creditors how badly we have bungled our financial affairs, for we have to keep on borrowing from them as long as we are running a balance-of-payments deficit in order to avoid a collapse of the dollar, rapid inflation and record interest rates. The risk of a worldwide run out of dollar-denominated debts is great.

A growing number of economists believe that we will pay for a quarter-century of profligate borrowing and spending with a gentle but prolonged decline in our standard of living. That might be so if we were now ready to stop borrowing and start earning our way in the world. But since we still show no sign of doing that, I believe that the American era will end not with a whimper but with a crash. ■

The drought has heated up the grain markets, but beware how you play them.

WEATHER-DRIVEN MARKETS

By Stanley W. Angrist

Spring and early summer weather has turned lots of traders into grain bulls. The grains and soybeans (the latter, technically, are legumes, not grains) have responded to the lack of rain in a big way. In the past month wheat, corn, soybeans and oats have all made substantial up moves.

In addition to the weather, there has been a drawdown of about 40 million metric tons in world grain stocks over the past year. Couple that with the lack of subsoil moisture and it's no wonder that the grain bulls are licking their chops.

Paul Handler, in his weather-tracking publication *The Atlas Monthly Report* (217-344-5448), follows such events closely. He observes that there was a 5.6-inch rainfall deficit against the annual average in the crop growing areas from Jan. 1 to June 1. Based on that, he estimates that corn yields will be down 10% to 20%, at 95 to 105 bushels per acre. He believes that soybean yields will be down 6% to 12%, at 28 to 30 bushels per acre.

Moisture problems in the grain growing regions of the U.S. started last fall. As April began, subsoil moisture was too low in the Southeast, Southwest, the corn belt and in the spring wheat growing areas of the U.S. and Canada. April and May were drier than normal. The dryness of the spring of 1988 in some ways seems like the spring of 1987. But, Handler notes: "Unlike 1987, the spring of 1988 has been colder than normal in the eastern half of the country, and there is not much subsoil moisture to carry corn and soybeans through long, dry periods between intermittent rainfall. Therefore, the vulnerability this year is considerably greater."

There is no chance of a shortage of corn—stocks in storage are ample—but corn prices have nevertheless started to rise. December corn has moved up by about 50 cents a bushel since Apr. 1.

Soybeans, as usual, have shown the most volatility in response to the dry weather. Traders should keep in mind that any half-decent rainfall in the Midwest could send bean prices down by 50 cents to $2 a bushel. Such a selloff would spill over into the other grains.

The weather ramifications have even affected the winter wheat market, which, by the time you read this, will have been harvested. (Winter wheat, planted in the fall and harvested in May and June, accounts for about three-fourths of the nation's total wheat production.) On June 1 the U.S. Department of Agriculture revised downward again its estimate of this year's winter wheat crop, from 40.7 bushels to 39.4 bushels per acre.

These figures suggest a crop of about 1.57 billion bushels—still slightly larger than the 1987 crop of 1.56 billion bushels. Nevertheless, wheat too has moved up by about 50 cents a bushel. Why? Partly in sympathy with the other grains, and partly because some observers believe the June crop report on winter wheat is too optimistic.

Of the crops covered in the USDA's June crop report, the spring wheat crop (planted in May and harvested in late summer and early fall) is in the worst condition of all.

But traders' bullishness should be tempered by the fact that the weather in the Soviet Union has been great—not too hot, not too cold. It's likely, then, that the USDA's estimate of 215 million tons for the Soviet grain crop may turn out to be too low, which will, no doubt, reduce grain exports to the U.S.S.R.

However, the drought here appears to have worsened since the June crop report. Because weather grain markets are so volatile and have moved up so much, I would not consider a long position. Nor would I consider a short position without some evidence that the drought was beginning to break. Limit moves, even in your favor, frequently can make sleeping difficult.

But I still think there is a relatively safe way to try to extract profits from these weather-driven markets. First, it is necessary to use some type of momentum indicator, such as the relative strength indicator discussed in my June 13 column, to see if the markets are starting to top. Then, using options, I would try to set up synthetic short positions in wheat, corn and soybeans.

For example, in September wheat I would try to buy a put with a strike price below the market and sell a call with a strike price above the market while receiving a credit on the trade. Profits would grow rapidly as prices fell below the strike of the put purchased. The same strategy could be followed with September corn. High rollers with strong constitutions could try the same technique with September beans.

Keep in mind that in each of these trades you would be short a naked call in what have been very volatile markets. Such positions entail considerable risk and must be watched by you or your broker continually.

The margin on each of these trades would be equal to a futures margin plus the cost of the put. Risk no more than the required futures margin and accept a profit equal to twice the futures margin if it is offered. Don't go on vacation with synthetic shorts in place. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

If the 1960s pattern repeats, secondaries have years of life left. Even if the 1982-83 cycle prevails, they have months to go.

THE BULL LIVES?

By Mark Hulbert

Suddenly last summer, after an absence of several years, investment letters focusing on secondary stocks began appearing at the top of the rankings in my *Hulbert Financial Digest*'s monitoring of advisory performance. In my column written just prior to Black Monday ("Après Nous le Déluge," *Nov. 2, 1987*) I discussed the possibility that this shift of leadership meant the bull market was entering its long-awaited final act of speculative frenzy. I even listed several stocks then popular among these leading secondaries-oriented newsletters that could shine in the bull market's last hour. But then came the crash, and the bull's final act was cut very short indeed.

Or was it? Astonishingly, and as improbable as it may have seemed immediately after the crash, the results I'm seeing in the *HFD* now make it appear quite plausible that the bull market has survived and is still playing out its final act. The secondaries-oriented newsletters are still leading the *HFD*'s hit parade, and many have recovered the losses they sustained last fall. In fact, most are well ahead of where they stood at the beginning of 1987 *(see my column, June 13)*. Blue-chip oriented newsletters have performed not nearly as well.

Equally impressive has been the postcrash performance of the stocks then popular among the leading secondaries-oriented newsletters. As of mid-June, the stocks listed in my Nov. 2 column were ahead an average of 36% since that date, as compared with 5.5% for the DJI. Even if you had bought these stocks when we went to press on Oct. 12, prior to the crash—arguably the worst time imaginable at which to do so—you still would be ahead 3% today, as compared with a loss in the Dow Jones industrials of 14%.

Traditionally, this pronounced relative strength among secondary stocks is said to occur in the late stages of bull markets. It's difficult to say, however, just how long such relative strength might continue. At the end of the bull market in the late 1960s, secondaries outperformed blue chips over a period of some three years. (Intriguingly, secondary sector relative strength has sometimes occurred in the earliest stages of bull markets—for example, in the 12 months after August 1982.)

So if the 1960s pattern is repeated, secondaries have several years' life left in them. Even if the shorter 1982-83 cycle prevails this time around, they still should have a few months more to go.

Which stocks should do well during bursts of speculative frenzy in the secondary markets? To get an answer, I conducted the same analysis as for my column last fall—determining which stocks are recommended by the leading newsletters in the secondary area. (Stocks or mutual funds recommended by just two or three letters tend to outperform those recommended by a much larger number of services. This time no secondary stock had more than two enthusiasts among the leading secondaries-oriented letters.)

No fewer than a dozen stocks emerged from the analysis—a distinctly high number. Since newsletters in the secondary field attempt to carve out unique niches, it is relatively unusual for them to agree on the purchase of even a few stocks, much less a full dozen.

Apart from the fact that these dozen stocks are not blue chips, there is little else that they share in common. Just one of them, *Compaq Computer* (58), is in the computer manufacturing area. Two more are in the computer software industry: *Aldus Corp.* (18), which produces desktop publishing software, and *Warner Computer Systems* (6), whose field is database and computer processing.

Besides Compaq Computer, 3 more of the 12 stocks have recently been listed on the NYSE: *Carriage Industries* (4), a carpet manufacturer; *Par Pharmaceutical* (17), a producer of generic drugs; and *TGI Friday's* (7), the restaurant concern. Besides Warner Computer Systems, three additional stocks among the dozen trade on the American Stock Exchange: *International Power Machines* (4), which manufactures uninterruptible power supplies; *Stage II Apparel* (5), which designs and produces casual apparel; and *Ecology & Environment* (10), an environmental consulting and testing firm.

The remaining stocks trade over-the-counter. Besides Aldus Corp., they are *Electromagnetic Sciences* (12), a manufacturer of defense-related microwave equipment; a toy manufacturer by the name of *Tyco Toys* (12); and a convenience store company, *Uni-Marts* (6).

This "dirty dozen" will presumably perform handsomely as long as the secondaries' relative strength continues. There are no guarantees, needless to say, but it is comforting to know that stocks similarly recommended by leading newsletters prior to October's crash are ahead of the game on average.

So even if another crash occurs within days of this column's appearing—God forbid—these stocks still might not be such bad bets. ■

Mark Hulbert is editor of the Washington, D.C.-based Hulbert Financial Digest *and author of* The Second Hulbert Financial Digest Almanac, *published by Minerva Books.*

Edited by Thomas Jaffe

By Jovanovich!

When U.K. media baron Robert Maxwell moved in on $1.1 billion (sales) Harcourt Brace Jovanovich last year, HBJ Chairman William Jovanovich repelled him with a recapitalization under which shareholders were paid a special $40 per share cash dividend. For each share of common owned, there was also issued a share of 12% preferred stock on which cumulative dividends presumably will be paid in additional 12% preferred, through June 30, 1993. (After that, cash dividends are scheduled to begin.) To finance the deal, HBJ swelled its long-term debt from $600 million to nearly $3 billion by tapping its bankers and selling debentures.

Elizabeth Bramwell, of New York's Gabelli & Co., thinks the common stock "stub" of this debt-heavy corporation is a splendid way to reap the rewards of a de facto leveraged buyout of a cash-flow rich growth company. Orlando-based HBJ is the U.S.' largest publisher of elementary and secondary school textbooks, third-largest publisher of college texts and largest publisher of scientific and medical books and journals. Last year publishing generated 59% of profits on 53% of sales. Holt, Rinehart & Winston, purchased from CBS in 1986, broadens its textbook line. W.B. Saunders/Dryden, also from CBS, does the same in the medical area.

HBJ is also among the top 100 U.S. life insurance companies in premium income and insurance issued. And last year it opened the Boardwalk and Baseball theme park between Orlando and Cypress Gardens. This includes a $50 million complex now serving as the spring training headquarters of the Kansas City Royals.

Through its Sea World marine parks, HBJ is the second-largest operator of theme parks, after Disney. In 1987 parks generated 28% of profits on 19% of sales. To Sea World parks operating in Orlando, San Diego and Cleveland, in April HBJ added a fourth park, in San Antonio, where each year over 10 million people visit the Alamo. Bramwell predicts more Sea Worlds, most likely overseas.

But what about all that debt? No problem, says Bramwell. In 1987 HBJ met its bank credit requirement ahead of schedule by selling two divisions for $370 million. She estimates pretax operating cash flow will rise to more than $800 million by 1993, which would allow HBJ to repay the remaining $1.2 billion of its long-term bank debt and to redeem its 12% pay-in-kind preferred.

Sea World of Texas Clem Spalding

HBJ's new Sea World in San Antonio
Recapitalized and off to a flying start.

Bramwell predicts that after-tax cash flow in 1989 will be $4.45 a share, vs. around $2.65 this year. So the stock—up 40% since the beginning of the year to a recent 9¾ on the NYSE—is still selling for just 2.2 times next year's anticipated cash flow, and only 7 times projected 1989 earnings (before special preferred dividends). Management and employees now own over 40% of the 60 million common shares.

Albany bound

If you're put off by the high P/Es of paper stocks, analyst Mark Kurland of New York's Mabon, Nugent & Co. has a cheaper way to play the industry: $402 million (sales) Albany International Corp., the largest manufacturer of paper machine clothing. These are continuous belts of custom-designed, engineered fabrics installed on paper machines to carry paper through the primary stages of production. The useful life of paper machine clothing ranges from 30 to 90 days for press fabrics, from 9 to 15 months for dryer fabrics. Clothing costs between $3,000 and $130,000 per fabric.

Because of the expansions and new machines planned by the industry for the next three years, Kurland expects profits to keep rising for Menands, N.Y.-based Albany. Indeed, the company's growth has been about 5% better than actual growth in paper production. Kurland estimates Albany will earn $1.40 this year, up 22%. He's looking for a further 18% earnings gain in 1989, to $1.65 a share.

The company was taken private through a leveraged buyout in 1983 at a price equal to $11 a share in today's market. It was brought public again in September 1987 through an offering of 6.4 million Class A shares at $16 apiece. Recent o-t-c price: 15¼. There are 24.7 million total shares outstanding, including 7 million shares of Class B supervoting stock. (Chairman J. Spencer Standish controls about 62% of the voting power.) With the Class A shares selling below their 1987 public offering price and for just nine times anticipated 1989 earnings, Mabon's Kurland thinks the stock's a buy.

Life after Morley

Raiders Ian Cumming and Joseph Steinberg took control of Talcott National in 1978, renamed it Leucadia National Corp. and used undervalued assets and tax-loss carryforwards to increase shareholder value by around fortyfold. Now Martin Roher, of San Francisco's MSR Capital Management, is betting the Leucadia team can repeat this success with $499 million (sales for the last 12 months) Phlcorp, Inc.

Phlcorp is the reorganized bankrupt that emerged from the ashes of Morley Thompson's infamous Baldwin-United. Recent NYSE price of Phlcorp: 7¾. Roher thinks it may be worth three times as much.

Leucadia acquired control of Philadelphia-based Phlcorp in late 1986, just before the firm emerged from bankruptcy, by purchasing a sizable portion of Phlcorp's defaulted bank debt for $107 million. In February Leucadia tendered, for 3.3 million, Phlcorp shares at $5 apiece, raising its ownership to 63% of the 13.5 million outstanding shares. Leucadia now says it may increase its stake to 80%.

Roher thinks that in Phlcorp, Cumming and Steinberg have found one of the sweetest asset pools ever. Among

hlcorp's hidden assets when Cumning and Steinberg pounced on it ere notes of Empire Mutual Insurnce Co. (which writes property and asualty policies on New York City axicabs, along with general liability). he notes were once issued to a Baldin subsidiary and were on Phlcorp's ooks for a mere $25 million. In Janury Phlcorp converted these notes to a 7% equity interest in Empire and ill probably buy out the minority tockholders. Roher estimates Empire ill earn about $25 million, untaxed, is year—that's $1.85 of earnings per hlcorp share. In a breakup, Roher inks Empire alone is worth $7.50 er Phlcorp share.

Another undervalued Phlcorp asset S&H Green Stamps, a business that as been shrinking. S&H's principal ttraction, Roher says, may be the ortion of its $141 million reserve—10.45 per Phlcorp share—for future tamp redemption that will end up as big cash surplus. Roher recalls that Varren Buffett took over Blue Chip tamps and used its investment portlio for acquisitions as the stamp usiness declined. Roher thinks S&H worth $2 per Phlcorp share.

Other Phlcorp assets include a $75 illion (sales) motivational services ivision, which designs incentive proams for outside clients, and an inerest in a Madison Avenue office uilding lease. Baldwin Life, licensed sell insurance in New York, has een inactive but is now being revitaled and intends to seek approval to ell a variable annuity product. This ould fit well with other insurance roducts from Leucadia's Charter Naonal Life subsidiary.

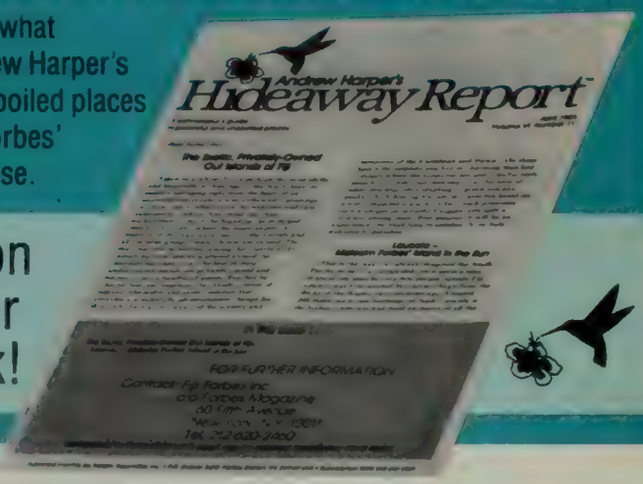
Phlcorp is exceptionally liquid. Inluding Empire's cash, there is $103 illion in the till, or $7.63 per hlcorp share. The company has paid ff all its long-term debt.

Finally, Phlcorp is swimming in x-loss carryforwards. Valuing these t 10 to 15 cents on the dollar, Roher ays they're worth anywhere from $3 $7.60 per Phlcorp share. (The differnce, he notes, depends on several nresolved IRS issues related to the ld Baldwin-United.)

Add up all these goodies, and Roher inks Phlcorp is currently worth ver $20 a share. And while you wait r the stock to rise, he expects Cumning and Steinberg to take full advange of Phlcorp's balance sheet by aking acquisitions and using all ose tax-loss carryforwards to shelter ture profits.

All in all, Phlcorp could prove to be long-term investor's dream.

"This is the way you always imagined the South Pacific to be" Read what Andrew Harper's exclusive guide to unspoiled places says about Malcolm Forbes' exotic Fiji Island paradise.



It's the vacation of a lifetime for $2,150 a week!

"Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of 'bula' are a reflection of the welcome and care extended to visitors.

"This is the way you always imagined the South Pacific to be – an unspoiled, once-upon-a-time tropical isle seen by very few people outside Fiji since it was first spotted by Captain Bligh from the decks of the *Bounty* two centuries ago. Situated 200 miles out to sea northeast of Nadi, Laucala is the lushest, remotest and most exclusive of all the destinations in this corner of the world. The island is ringed by impressive coral reefs, shell-strewn beaches and a beautifully manicured coconut plantation whose terrain rises upward to a mountainous interior rife with giant ferns, mango trees and wild birds. . . .

"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

Meals are a delight here, beginning with breakfast prepared by a cook and housekeeper in the privacy of your own bungalow at any hour you wish. Dinner and lively conversation are enjoyed at the atmospheric Plantation House . . .

"A wide range of daytime diversions are available including top-notch sport fishing aboard a specially-designed 45-foot deepsea boat staffed with a knowledgeable captain and crew at your call. Tuna, mai-mai, snapper, jack fish and sailfish are all regularly hooked in these virgin grounds, plus an occasional black marlin. There's also superb snorkeling/scuba diving (tanks and weights provided) in the transparent offshore waters where stunning reefs harbor colorful coral heads teeming with rare tropical fish and specimen shells. . . .

"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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Fort Garland, CO 81133
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Forbes Index

INDEX OF COMPANIES COVERED IN NEWS STORIES AND BY THE COLUMNISTS IN THIS ISSUE. EACH REFERENCE IS TO THE FIRST PAGE OF THE STORY IN WHICH THE COMPANY NAME APPEARS.

Abbott Labs ... 78
Joseph Joseph ... 126
Acclaim Entertainment ... 137
Activision ... 137
Advanced Micro Devices ... 56
Aetna Life & Casualty ... 132
Air France ... 133
Albany International ... 154
Alcoa ... 88
Aldus ... 153
Allianz ... 64
American Continental ... 74
American Express ... 64, 132
American Sedan Network ... 48
Ammirati & Puris ... 135
Apple Computer ... 64, 124
Giorgio Armani ... 126
Aster Investment Management ... 42
AT&T ... 114, 124
Atlantis Group ... 145
The Atlas Monthly Report ... 152
Audiovox ... 84
B.A.T (Saks Fifth Avenue; Marshall Field) .. 139
Bank Enskilda ... 64
Bank Hapoalim ... 34
Bankers Trust ... 41
Baxter Travenol Laboratories ... 37
Beatrice ... 16
Bechtel Group ... 36
Beltone Electronics ... 42
Ben & Jerry's ... 139
Benjamin Franklin Savings ... 74
Benton & Bowles ... 135
Bertelsmann (RCA/Ariola Records Intl) ... 137
A.M. Best ... 132
Black & Decker ... 85
Bill Blass ... 139
Blinder, Robinson ... 14
Blue Cross/Blue Shield ... 132
Boeing ... 56, 64, 88, 145
Brenlin Group ... 41
Bright Banc ... 74
British Airways ... 48, 133
Brown Brothers Harriman ... 8, 64
Burke & Burke ... 118
Cambridge Financial Group ... 10
Campeau ... 19
Campeau (Bloomingdale's) ... 126, 139
Campeau (Brooks Brothers) ... 126
Pierre Cardin ... 126
Carriage Industries ... 153
Caterpillar ... 78
CBS ... 24, 135, 154
CDA Investment Technologies ... 56, 64
Celanese ... 64
Chalone ... 16
Chase Manhattan ... 64
Checker Cab (Chicago) ... 48
Chemical New York ... 41, 149
Christie's International ... 133
Circle K ... 48
Citicorp ... 41, 64
Clemente Global Growth fund ... 144
Coastal Banc Savings Association ... 74
Coated Sales ... 10, 145
Coca-Cola ... 83
Coca-Cola (Columbia Pictures Entertainment) ... 56
Columbia Savings & Loan of California ... 34
Compaq Computer ... 56, 153
Computer Associates International ... 8, 118
Conair ... 85
Concord Capital Management ... 56
Consolidated Edison ... 159
Consumer Reports ... 132
Continental Illinois ... 41
Coopers & Lybrand ... 83
CPT ... 145
Cray Research ... 56, 130
Crazy Eddie ... 84, 145
Credit Anstalt ... 64, 151
Dahlberg ... 42
B. Dalton, Bookseller ... 42
Dentsu ... 38
Digital Equipment ... 114, 118, 124
Christian Dior ... 126
Discount ... 64
Discount Cab ... 48
Walt Disney ... 38, 154
DKK ... 38
Dow Jones-Irwin Books ... 64
Dow-Corning ... 78
Dresser Industries ... 64
Drexel Burnham Lambert ... 14, 34, 64
R. Duell & Associates ... 38
Dun & Bradstreet ... 41
Eastman Kodak ... 85
Ecology & Environment ... 153
Economics Research Associates ... 38
Economist ... 151
Electromagnetic Sciences ... 153
Empire Mutual Insurance ... 154
Emporio Armani ... 128
Equitable Life Assurance (Donaldson, Lufkin & Jenrette) ... 64
Estabrook Capital Management ... 64
Eurail Guide Annual ... 21
Federal Home Loan Mortgage Association ... 74
Andrew Fezza ... 126
Fidelity Investments ... 48
Fiesta Cab ... 48
Financial Corp. of America ... 74
First Texas Financial ... 74
Fischbach ... 145
Fischer, Francis, Trees & Watts ... 64
FMC ... 56
Ford Motor ... 84, 145
Fortunoff ... 139
47th Street Photo ... 84
Gabelli ... 154
GAF ... 14
Gartner Securities ... 118
GE ... 10, 88
GE (Kidder, Peabody) ... 118
General Dynamics ... 10
General Host ... 150
General Mills (Betty Crocker) ... 20
General Motors ... 16, 84, 118
Gettig Technologies ... 24
Glenoit Mills ... 34
Golden Nugget ... 145
Golden Shiitakes ... 10
Goldman, Sachs ... 64, 74
Golf Magazine ... 130
Government National Mortgage Association ... 74
Great Universal Stores (Burberrys) ... 139
Gruppo GFT ... 126, 128
Hamilton Beach ... 85
John Hancock ... 132
M.A. Hanna ... 64
Harcourt Brace Jovanovich ... 154
Harris ... 135
Hartmarx ... 126
Hasbro ... 56
The Health Letter ... 20
Joan Helpern ... 126
Henley Group ... 37
Hevrat Ha'Ovdim ... 34
Hewlett-Packard ... 78, 114, 124
Hoguet Muzinick, Keller ... 64
Holy Cow ... 139
Hongkong Bank ... 114
Houston Post ... 14, 126
Hulbert Financial Digest ... 153
Humanist ... 56
IBM ... 16, 64, 114, 118, 124, 145
IC Industries ... 37
ICL ... 118
Illinois Central Gulf Railroad ... 37
IMC Fertilizer Group ... 116
Inland Steel ... 150
Intel ... 78

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International Lease Finance ... 88
International Minerals & Chemical ... 116
International Power Machines ... 153
International Titanium ... 88
Invacare ... 135
Investors Intelligence ... 150
Japan Golf Report ... 130
Johnson & Johnson ... 116
Johnson Electric Industrial Manufactory ... 85
Journal of Experimental Psychology ... 56
Carl Karcher Enterprises ... 62
King World Productions ... 83
KPMG/Peat Marwick ... 130
Krups ... 85
Ladbroke's ... 14
Ladenburg Thalmann ... 144
Ladish ... 88
Lake Shore National Bank ... 41
Lamson & Sessions ... 41
Landmark Entertainment Group ... 38
Ralph Lauren ... 126
Lear Siegler ... 42
Leucadia National ... 154
Levi Strauss (Oxxford Clothes) ... 126
Little, Brown ... 21
Los Angeles Times ... 126
Lotus Development ... 118
Mabon, Nugent ... 154
Mabuchi Motor ... 85
R.H. Macy ... 126, 139
Manufacturers Hanover ... 41, 64
Marriott ... 42
Mattel ... 56
MCA ... 56
MCA Enterprises International ... 38
McCann-Erikson ... 10
McDonald's ... 137
McKinsey ... 64
MediaNews Group ... 14
Memory & Cognition ... 56
Merck ... 56
Merrill Lynch ... 14, 64, 144
MGM ... 126
Microsoft ... 118, 124
Milgrim Thomajan & Lee ... 77
Mitsubishi ... 38, 130
Mitsui ... 130
Mitsui Engineering & Shipbuilding ... 38
Mobil ... 15
Mohasco ... 145
Monsanto ... 78
Morgan Stanley ... 64
Motorola ... 84
MSR Capital Management ... 154
Multimedia ... 64
Murray Ohio ... 145
Nabisco ... 85
National Presto Industries ... 145
NEC ... 84
Neiman Marcus ... 126
New York Mets ... 10
Nicholas-Applegate Growth Equity Fund ... 144
Nippon Steel ... 38
Nomura Securities ... 38
Northfield Laboratories ... 37
Novatel ... 84
Occidental Petroleum ... 142
Oki ... 84
Oppenheimer ... 145
Oriental Land ... 38
Osaka Port Authority ... 38
Outboard Marine ... 150
Panasonic ... 84
PaineWebber Group ... 36
Pansophic Systems ... 118
Par Pharmaceutical ... 153
Peat Marwick Main ... 10, 78
J.C. Penney ... 64
PepsiCo ... 37
PepsiCo (Pizza Hut) ... 20
Philips ... 145
Phlcorp ... 154
Pictet ... 64
Pittsburgh Pirates ... 10
Price Waterhouse ... 83
Procter & Gamble ... 132
Prudential Insurance ... 132
Raytheon ... 88
RKO Enterprises ... 37
Robertson Colman & Stephens ... 42
Runzheimer Reports on Fleet Maintenance and Safety ... 133
Saatchi & Saatchi, Comptom ... 10
Yves Saint-Laurent ... 139
Salomon ... 64, 74
San Francisco Chronicle ... 126
Sanrio ... 38
Sanyo ... 139
Sanyo Shokai ... 139
Sara Lee ... 56
Seagram ... 42
Sears, Roebuck ... 42
Secura Group ... 74
Securities Data ... 64
Sequoia Creative ... 38
Shearson Lehman Hutton ... 14, 64, 149
Sherry-Lehmann ... 133
Shimizu Construction ... 38
Siebel Capital Management ... 42
Skyline ... 145
SmithKline Beckman ... 83, 142
SNL Securities ... 74
Southern (Southern Electric International) ... 137
Southwest Savings ... 74
SpencerStuart ... 135
Stage II Apparel ... 153
Standard & Poor's ... 145
Starkey Laboratories ... 42
Sterling Drug ... 145
Sterling Software ... 118
J.P. Stevens ... 145
Sun Microsystems ... 114, 124
Sunbeam ... 85
Sunbelt Savings ... 74
SuperShuttle International ... 48
Technicare ... 135
Texaco ... 64
Texas Instruments ... 64
TGI Friday's ... 153
Thomson McKinnon Securities ... 149
Times Herald (Dallas) ... 14
Toshiba ... 84
Trans World Airlines ... 34
Travelers ... 132
Tribune (Nassau, Bahamas) ... 8
TW Services ... 56
"21" ... 19
Twistee Treat ... 36
Tyco Toys ... 153
U.S. Trust ... 64
Emanuel Ungaro ... 126
Uni-Marts ... 153
Union Pacific Railroad ... 64
Unisys ... 114
United Cab ... 48
United Financial Group (United Savings) ... 74
Valentino ... 126
Vanguard Group ... 144
Vestimenta ... 128
H.C. Wainwright ... 14
Warner Computer Systems ... 153
Wasserstein, Perella ... 37
Western Power ... 137
Whitehall ... 145
Windsor funds ... 144
Worlds of Wonder ... 56
Wyman-Gordon ... 88
Wyse Technology ... 56
Yankee Group ... 114
Yellow Cab (Chicago) ... 48
Yellow Cab (Phoenix) ... 48
Yellow Cab (Seattle) ... 48
Yellow Cab Services ... 48

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Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

Sixty years ago in FORBES

From the issue of July 15, 1928)

"**Governor [Alfred E.] Smith** is not viewed with alarm by finance and business. Those familiar with his record frankly acknowledge that he has administered the governorship of the Empire State with masterly, business-like efficiency. He has been diligent as well as intelligent. Never has he allowed the presidential bee to send him careering over the continent parading and orating to captivate voters. His record has been one of honesty, honor, industry, effectiveness. He is not at all regarded as an irresponsible, dangerous demagogue. As Governor he has proved himself a statesman rather than the traditional politician."

New York Governor Alfred E. Smith, 1928 Democratic presidential nominee

"**Wealth** is notoriously conservative. Conservatism may be either a virtue or a vice, depending upon its degree and surrounding circumstances. Wealth often breeds something else which is never a virtue, smugness. Many a business dwindles because its heads, having earned a competency, set their faces against changes, against innovations, against new experiments. Change is the very law of business. Nothing is more certain than that changes shall go on continually."

—B.C. Forbes

Fifty years ago

From the issue of July 15, 1938)

"**Just when almost everybody** had apparently concluded that America was destined to experience a dull, drab, dragging summer, spectacular activity and bullishness flared up in securities. In two short weeks sentiment performed a somersault. Stocks bounded upwards at a rate equalled only once before in our financial history. Various commodities advanced. Retail trade suddenly picked up. Manufacturers were called upon to replenish depleted inventories."

"**A passenger-car tire** made of rayon is now on the market. The makers claim much greater strength for the new tire because when it heats up in operation, they say, the rayon cord retains its strength to a much greater degree than any cord tire yet developed—in fact, up to a moderate operating temperature, the rayon cord actually grows stronger as it heats up."

Twenty-five years ago

(From the issue of July 15, 1963)

"**The U.S. tobacco industry** is headed for trouble of a kind no other industry has ever seen. Baldly stated, and some important unknowns aside for a moment, the trouble comes down to this: Cigarettes, which account for nearly 90% of the tobacco industry's sales, stand accused by growing numbers of powerful critics of killing the people who use them most. These charges have created a full-fledged crisis of confidence in the product, the industry's second such in a decade."

"**Pennsylvania's Lehigh University** reports that its June graduates went to work for a median starting salary of $570 a month, up 7% from last year. Even the lowest-paid—the business administration and arts and science majors—ended up with median salaries of approximately $500 a month."

"**Time was when** the five & dime store was one of the true growth enterprises of the U.S. On the then novel concept of a single store offering a wide variety of cheap merchandise to the newly prosperous working class were built such famed fortunes as those of the Woolworths, Huttons, Kresses and Kresges. This was early in the 20th century when traditional merchants were interested only in the carriage trade.

"Even during the Depression of the 1930s, variety stores were thriving. Between 1929 and 1933, for example, dime store sales fell only 15%—at a time when even grocery chains suffered a 25% sales decline. Yet today, with retail sales at record levels, the dime stores are facing the roughest period in their long history."

Ten years ago

(From the issue of July 10, 1978)

Cartoonist's view of Con Edison claims that 1977 blackout was an "Act of God"

"**In the summer of 1975** Charles F. Luce, chairman of Consolidated Edison Co. of New York, was on a panel in Washington, D.C. addressing an energy conference of high-level officials from big utilities, major oil companies and the federal government. He recounted for his audience all the tribulations of Con Ed.

"Ah, but look at Chairman Luce today. Slender, gray, a gracious towering presence at 6 feet 2 inches, he greets a visitor to his office with a decidedly cheerful air; even his slight limp, a relic of polio in his infancy, seems somehow jaunty. And why not? Since that day in Washington, he has built up for 'broken-down' Con Ed . . . the strongest balance sheet of any electric utility in the country."

"**Money, they say,** has no smell, but it should have politics. That's what ex-Secretary of State Henry Kissinger, 55, told some high-level bankers in Manhattan last month. . . .

"If the communist nations can't behave themselves, Kissinger told the bankers, stop lending them money, and he reminded his listeners that the Soviet Union and its allies are into Western banks for an astounding $50 billion. . . . For example, 'No foreign military adventures directly or by proxy, or else no loans.' "

Thoughts
on the Business of Life

People always overdo the matter when they attempt deception.
CHARLES DUDLEY WARNER

Always be ready to speak your mind, and a base man will avoid you.
WILLIAM BLAKE

I have been fooled so often that now I nearly always look the second time.
ED HOWE

People tell me to be frank, but how can I be when I don't dare to know myself?
FINLEY PETER DUNNE

There is something about a closet that makes a skeleton terribly restless.
WILSON MIZNER

The friendships which last are those wherein each friend respects the other's dignity to the point of not really wanting anything from him.
CYRIL CONNOLLY

Don't believe your friends when they ask you to be honest with them. All they really want is to be maintained in the good opinion they have of themselves.
ALBERT CAMUS

It is the weak and confused who worship the pseudosimplicities of brutal directness.
MARSHALL MCLUHAN

Almost all of our relationships begin and most of them continue as forms of mutual exploitation, a mental or physical barter, to be terminated when one or both parties run out of goods.
W.H. AUDEN

Camouflage is helpful in war because you are dealing with enemies. Camouflage is not helpful but harmful in business because you are dealing with friends-in-the-making. If you cannot make friends of those you do business with, they won't do business with you very long.
B.C. FORBES

No man, for any considerable period, can wear one face to himself, and another to the multitude, without finally getting bewildered as to which may be the true.
NATHANIEL HAWTHORNE

Customary use of artifice is the sign of a small mind, and it almost always happens that he who uses it to cover one spot uncovers himself in another.
LA ROCHEFOUCAULD

A white lie is always pardonable. But he who tells the truth without compulsion merits no leniency.
KARL KRAUS

A man has made great progress in cunning when he does not seem too clever to others.
JEAN DE LA BRUYÈRE

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All faults may be forgiven of him who has perfect candor.
WALT WHITMAN

Without some dissimulation no business can be carried on at all.
LORD CHESTERFIELD

The most positive men are the most credulous.
ALEXANDER POPE

Hatred of dishonesty generally arises from fear of being deceived.
VAUVENARGUES

There are some frauds so well conducted that it would be stupidity not to be deceived by them.
CHARLES CALEB COLTON

A Text . . .

Iron sharpeneth iron; so a man sharpeneth the countenance of his friend.
PROVERBS 27:17

Sent in by Dale Woods, Brooklyn, N.Y. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

People are made alarming by one's dread of their unremitting, purposeful continuity.
ELIZABETH BOWEN

Some people will believe anything if you whisper it to them.
LOUIS NIZER

We make our friends; we make our enemies; but God makes our next-door neighbor.
G.K. CHESTERTON

3 July 25

THE FORBES INTERNATIONAL 500 SURVEY

1992—IS EUROPE READY FOR UNION?

JULY 25, 1988 THREE DOLLARS/SEVENTY

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THE WORLD'S BILLIONAIRES

HOW THEY MADE IT • HOW THEY INVEST IT • HOW THEY KEEP IT

38 NEWLY UNCOVERED ONES OUT OF A TOTAL OF 192 • HOW THE WEALTHIEST MAN IN THE WORLD LOST A BILLION AND HARDLY FELT IT • 6 WOMEN BILLIONAIRES • 3 LORDS OF COCAINE • WHY GERMANY'S BILLIONAIRES INVEST OUTSIDE THE HOMELAND • THE SELF-MADE, THE INHERITORS, THE FAMILIES AND MUCH MORE

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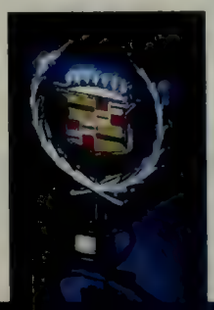

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Forbes

Cover illustration by Kinuko Craft

40 *Riklis' new way to borrow*

78 *A united states of Europe?*

JULY 25, 1988
VOLUME 142
NUMBER 2

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 272 AND 273.

COVER STORY

88 The World's Billionaires
Most of the 192 billionaire individuals and families we have unearthed created their fortunes in their home countries and are now deploying their wealth into productive investments in far-flung countries. In a global economy that is becoming more accessible and intertwined by the day, it's important to know who they are and what makes them tick.

SPECIAL REPORT ON INTERNATIONAL BUSINESS

203 The Forbes Foreign Rankings
204 The 100 Cheapest Foreign Stocks
208 The 500 Largest Foreign Companies
240 The 100 Largest Foreign Investments in the U.S.
248 The 100 Largest U.S. Multinationals
252 100 U.S.-Traded Foreign Stocks
Index to Foreign 500 on page 232.

COMPANIES

40 Riklis Family Corp.
By Dolores Lataniotis
Meshulam Riklis loves to borrow money. Having borrowed himself rich, he has now figured out how to borrow money, not on assets or cash flow, but on his own paper.

43 Cannon Group
By Lisa Gubernick
A couple of Italian financiers may have found some diamonds buried in the ashes of the Cannon film group.

50 A.G. Edwards
By Richard L. Stern
While Wall Street staggers under high overhead and low volume, A.G. Edwards sits profitably and waits patiently for the individual investor to return to the market.

60 International Technology Corp.
By John Hems
ITC was a "sure thing," a leader in the booming toxics disposal business. Sure things rarely are.

64 AM International
By Alyssa A. Lappen
Having messed up what looked to be a fine acquisition, AM International has to sell at a loss. So why is Wall Street cheering?

69 Vestron Inc.
By Lisa Gubernick
Austin Furst Jr. lucked his way into the entertainment business. He's still having some luck, but not much is rubbing off on his fellow shareholders.

72 Katy Industries
By James Cook
Let others go on acquisition binges. Right now shrewd old Wallace Carroll prefers to hang on to cash.

168 Rollins, Inc.
By Kerry Hannon
If you own a home, chances are that the 76-year-old chief of Atlanta-based Rollins, Inc. has got your number. Or will soon.

181 USAA
By Toni Mack
Here's a place where the financial supermarket—a one-stop shop for everything from stocks to life insurance—really works. What's the secret?

INDUSTRIES

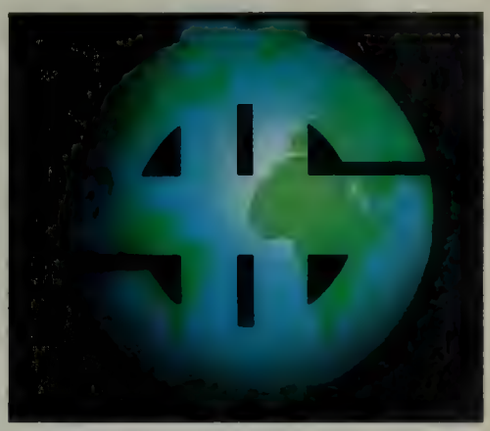
41 Cellular Phones—Hello, Sucker
By Fleming Meeks
The FCC's lottery for cellular phone company licenses in rural America has unleashed a scam that could cost unwary investors more than a billion dollars.

70 Semiconductors—Who Caused The D-RAM Crisis?
By Robert N. Noyce and W.J. Sanders III and George Gilder
Two semiconductor leaders take issue with FORBES' contention that unrestrained competition is good for their industry. And George Gilder defends his thesis.

INTERNATIONAL

38 High Noon In Cincinnati
By Andrew Tanzer
Japan's leading household products company is cleaning up at home. Now Kao wants to go global.

182 *Not your ordinary stock picker*



203 *The International 500*

44 Is Robert Jealous Of Rupert?
By Claire Poole
Foreigners are spending big money to buy into U.S. media properties. Now, with a fat bankroll, comes Britain's Robert Maxwell.

56 Who Made Your Underwear?
By Edwin A. Finn Jr.
Thanks to the Caribbean Basin Initiative, that tormented area is beginning to integrate itself into the U.S. manufacturing economy in a far bigger way.

78 1992 And All That— An Impossible Dream?
By Susan Lee
As they said of the Holy Roman Empire, it was neither holy, nor Roman, nor an empire. Will history say the same about 1992 and the coming of European economic integration?

NUMBERS GAME

84 "You Know It When You See It"
By Penelope Wang
When does an asset become impaired? Current accounting rules leave that decision up to management. Smart?

INVESTING

182 The Money Men: Technology Has No Season
By Peter Brimelow
Michael Gianturco is a stock picker with some unusual rules. For example, he deliberately avoids the stocks that look best to him.

270 Streetwalker
Rail stocks; Dun & Bradstreet; Logicon; Guy F. Atkinson Co.

MARKETING

184 Marketing Against The Mainstream
By Jeffrey A. Trachtenberg
Hal Riney's creative genius has produced some of our most memorable advertising. He has done it, he explains, by throwing out much of Madison Avenue's conventional wisdom.

SCIENCE & TECHNOLOGY

190 Smile!
By Edward Giltenan
When your dentist talks about "veneer" these days, he doesn't mean the furniture. He's talking about a remarkable advance in "capping" teeth. Also: Truly automated factories have quietly begun to work in the U.S.

PERSONAL AFFAIRS

194 A Bird In The Hand
By Gail Buchalter
Exotic, colorful, talking birds are all the rage as pets, but understand what you are in for. Canaries they're not. Also: Walking into shape.

CAREERS

200 Seven Steps To Winning A Fight
By Richard Greene
Disagreeing with the boss can be risky, but failing to try can be fatal for employees. Here, some time-tested rules.

DEPARTMENTS

6 Side Lines
10 Follow-Through
12 The Informer
18 Readers Say
21 Fact and Comment
26 Other Comments
29 Fact and Comment II
275 Flashbacks
276 Thoughts

COLUMNISTS

261 Ben Weberman
262 Susan Lee
264 David Dreman
266 Ann C. Brown
268 Mark Hulbert

MONEY & INVESTMENTS

33 What's Ahead For Business
34 The Forbes Index
257 The Forbes/Wilshire 5000 Review

FACES BEHIND THE FIGURES

198 **Paul Tosch,** *Vauxhall*
198 **George Back,** *All American Television*
198 **Peter Gardiner,** *Dalgety, Inc.*
199 **Abdullah Nojaidi,** *Sabic Marketing*

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Crises are interesting, the mundane is not

Building on the expertise FORBES has developed in identifying the 400 richest people in the U.S., we launched last year an even more ambitious effort: to search out the world's great fortunes. In this issue, we have refined our list of billionaires and billionaire families. We found 192 of them, 38 overlooked last year.

No doubt we missed some, but this we can say with near certainty: Every name on this list is a genuine billionaire. Harry Seneker saw to that. Having spent seven years supervising The Forbes Four Hundred issue, Seneker has developed an eye for spotting the overinflated reputation. In policing these lists, Seneker is a tough cop. When I raised the point that a country as vast and entrepreneurial as India must have more than one billionaire family, he rejected all nominees other than the one we had. Where was the proof that the Modis or the Tatas were really worth a billion? So it went country by country, industry by industry, billionaire by billionaire.

Alan Dorow, Archive

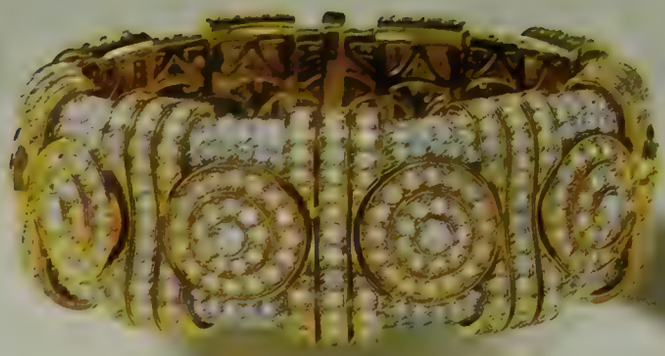
The FORBES "billionaire" team

The research was sometimes frustrating but never dull. Tatiana Pouschine is a veteran of the chase. Says she of her research in Italy: "For most Italians doing business is just another opportunity to have fun. If the writer does not stimulate them with new ideas, no information will be forthcoming. One banker offered to provide some documents but failed to deliver. After several weeks I telephoned him with the slight exaggeration that my editor was threatening me with death. The banker drove up in his Volvo to deliver them personally, just in time. To Italians, crises are interesting, mundane business is not."

FORBES staffers dealt with such questions as: How could Spanish billionaire Ramón Areces have children when a company spokesman says he is a childless widower? ("In Spain, people have mistresses," a source patiently explained.) Was Sir Yue-kong Pao alive or dead? All this was the work of a large team. Major contributors: Hiroko Asami, Patrice Duggan, Diana Fong, Claire Poole, Tatiana Pouschine, Lisa Scheer, William Barrett, Thomas Jaffe, Pranay Gupte, Richard Morais and Andrew Tanzer. Our Art Department made a heroic effort to gather art on many intensely secretive people, virtually unknown outside their businesses.

Perhaps the saddest job fell to the editors under Lawrence Minard who had to boil the information down. A lot of good stuff ended on the cutting room floor. Oh well, next year. . . .

James W. Michaels
Editor



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"Management must guide the forces of change..."

— John W. Teets, Chairman

The Greyhound Corporation has been recast. From the crucible of change has emerged a new Greyhound, tempered for strength and reshaped for the future.

The job of management always has been to see the company not as it is, but as it can grow to be. The new Greyhound is the result of this vision, built through a five-year restructuring program.

Hard choices were faced; tough decisions were made. Subsidiaries with annual sales of $3 billion, including the company's nationwide bus line, were divested. At the same time, new businesses with excellent growth and profit potential were established or acquired.

For example, Purex household and laundry products were added to the personal care and packaged foods brands of Greyhound's Dial Corporation. Premier Cruise Lines, the official cruise line of Walt Disney World, was launched. Dobbs food service for air

avelers was acquired, complementing Greyhound's xisting airport and food service businesses. General otors' RTS transit bus manufacturing and parts opera- on was purchased to expand Greyhound's top-ranked tercity coach-building business.

Today, Greyhound's four business segments — onsumer products, services, transportation manufac- ring and financial — produce revenues at a $3 billion nual rate.

With the restructuring of Greyhound's core businesses completed, management is concentrating on further improvement of operating returns. Change is inevitable, and management must guide the forces of change to create value for shareholders.

At Greyhound, we believe in renewing the company day by day.

The Greyhound Corporation

Follow-Through

Hot no more

Nov. 30, 1987

Radio broadcasting was supposedly dead, but last fall it was supporting Norman Pattiz and his Westwood One very well. As the country's second-largest radio network and a supplier of nationally sponsored programs to most commercial stations, the California firm had in a recent 12 months netted 12% on sales of $76 million. Its shares sold at 16, and Pattiz' 20% was worth $40 million. Radio marketing, we said, was "hot."

The market has cooled, however, and since January, so has Westwood. In the first quarter, ended Feb. 29, the network's margins were just 5% on sales of $28 million, and the firm announced in May that second-quarter results would be disappointing, too. Since last autumn the stock has dropped more than 25%, to 12.

Did Pattiz know things were bad before the May announcement? Three shareholder class action suits allege he did, noting that he sold 550,000 shares at about $20 early this year, mostly through a public offering, and that Westwood then authorized a million-share buyback in May. The company says the cases are without merit.

So is Westwood a loser? No, says Lisa Donneson of Salomon Brothers. Just don't expect it to outpace the market.—**Alyssa A. Lappen**

The price of plain talk

June 27, 1988

When Forbes interviewed Ozires Silva recently in Rio de Janeiro, he was president of Petrobrás, Brazil's $20 billion state-run oil monopoly, and he had no qualms about criticizing his employer. "The biggest obstacle to economic efficiency is the Brazilian government," he said. "Instead of government interfering in the company's day-to-day management, I'd prefer that it ask for results, to be less government and more shareholder."

This brand of blunt honesty has cost Silva his job. One week after Silva's comments appeared in Forbes, he was sacked by Brazil's President José Sarney, who wanted compliance, not criticism, from his appointee. The last straw came when Silva publicly denounced Sarney's latest wage-freeze program for government employees, including Petrobrás' 68,000, announced in April. Silva argued that Petrobrás must compete against private international oil companies for talented workers; with Brazil's inflation approaching 20% a month, frozen wages handicapped Petrobrás in the job market, where private-sector wages are indexed.

Silva's departure amounts to more than the detour of a promising career. Silva made his reputation as founder of Brazil's largest aircraft manufacturer and is one of Brazil's most admired and influential businessmen. His sacking sent another chill through the private sector. If the Sarney administration really wants the economy to grow, the politicians will have to court business leaders like Silva, not alienate them further.—**Patrice Duggan**

Sunset in the groves

Mar. 23, 1987

Sunkist Growers, Inc. looked to be in a no-win situation last year. Sure, the citrus cooperative's 1986 sales were good, and skillful diplomacy in Japan had dramatically raised its orange sales there. But importers were poaching on Sunkist's U.S. market, and its own growers had begun selling to independents with lower fees. To keep its growers, Sunkist had to cut fees. But that, Forbes noted, ran counter to the need to promote its brand name to raise market share.

Sunkist's sales rose only 2.6% last year, to $853 million, and return to growers did only a little better, rising 3.5%, to $613 million. In the first half of fiscal 1988, the co-op's sales and returns rose at about the same rate. But even that growth is deceptive, since Sunkist actually sold 8% fewer oranges in the first half of this year than in the same period last year.

Struggling to cut costs, the co-op recently axed 12% of its fresh fruit staff. Growers are doing well, says President Russell Hanlin, "but we want to prepare for a competitive position in the future." That means good-bye to such consumer services as nutritional analysis and recipe writing for newspapers. Meanwhile, Sunkist is still losing growers. In short, the squeeze continues.—**A.A.L.**

Commonwealth cliff-hanger

Apr. 21, 1986

For much of the nuclear age, Commonwealth Edison was one of the best-run nuclear utilities in the U.S. But by 1986 its construction costs on two nuclear plants had escalated alarmingly, and when overruns reached 40% beyond projections, the Illinois Commerce Commission (ICC) began threatening to pull its operating licenses. Forbes worried that Edison could wind up having spent $5 billion on projects with nothing in the end to show for it.

Commonwealth was able to prevent the problems from getting worse and two months ago succeeded in bringing the last of three new nuclear plants on stream. Its electrical output has grown 5% in six months, and because the plants are cheaper to run than coal- or oil-burning facilities, two are operating at full steam.

Unfortunately, Edison is still battling with the ICC over whether the plants are really necessary and what rate relief it should get. Thus the utility has yet to make a nickel on its $7.1 billion investment. The ICC last year rejected its request for a $660 million rate hike in return for a subsequent five-year freeze. Edison now wants a $1.4 billion increase; the ICC staff says the company's current rates should actually drop $343 million.

Edison Chairman James J. O'Connor hopes that negotiations now in progress with the ICC staff will produce a tentative settlement soon. Thus, the stock rose from a four-year low of 22¾ in April to a recent price of 28. But if negotiations fail, investors could take it on the chin.—**A.A.L.**

MANI
BY GIORGIO ARMANI

Forbes Informer

Edited by Gretchen Morgenson

Pritzkers on the prowl

Where will the billionaire Pritzker brothers park the cash from their $100 million sale of Braniff International last month? One good bet is Ramada Inns. They already own 7.2% of Ramada stock, which they started buying last Oct. 19. And a recent transfer of the Ramada stake into the Pritzkers' HCC Corp., a holding company, could be significant. Why? HCC is already licensed with both New Jersey's and Nevada's gaming commissions, so a takeover of Ramada, with its casinos, would go smoothly.

Robert and Jay Pritzker
In for a lengthy stay at Ramada?

Furthermore, an unhappy Ramada holder may be looking for a buyer for his sizable stake. He's Donald Callender, a restaurateur who sold his Marie Callender Pie Shops chain to Ramada in 1986 for 6.3% of the hotel stock. Callender agreed not to sell his shares for five years, but he has alleged in a lawsuit that Ramada has breached its obligations in the bargain. Ramada says his case has no merit. But, if he succeeds in negating the standstill agreement, you can bet he'd sell his stake to the Pritzkers.

The Pritzkers paid between $4.50 and $6 for their Ramada shares; the stock's now around $7.75. But Wall Street sources put an $11 or $12 value on the company. A Ramada spokesman says the company believes the Pritzkers bought the stock for investment purposes only. The brothers won't comment. But a takeover makes sense. Having built the Hyatt chain, the family knows about the hotel business.

Too late, the IPO?

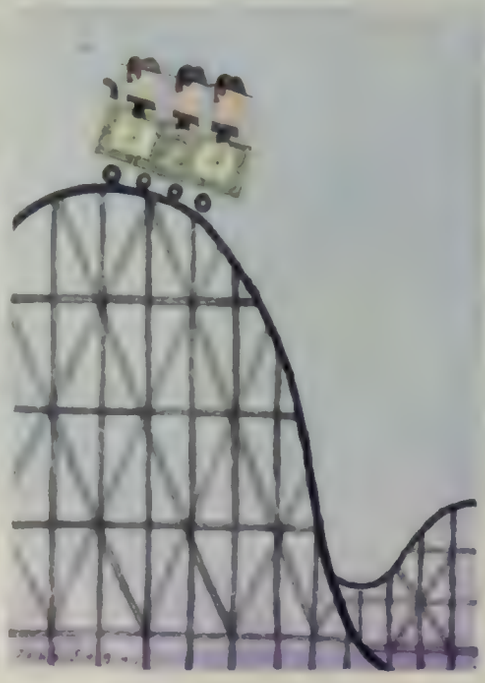
Investors have for years nagged privately held ComputerLand, one of the nation's largest computer retailers, to sell stock to the public. But former majority owner Ted Millard has assiduously avoided such a sale. Furthermore, a lawsuit brought by a group of investors claiming ownership to 20% of the company threw a monkey wrench into plans for an offering.

Now those hurdles may have been cleared. Millard no longer controls ComputerLand; the lawsuit has been partially settled and, word is, ComputerLand will begin filing initial public offering papers soon. The company won't comment on the rumor.

What multiple will the market bestow on the issue? If ComputerLand had gone public five years ago, it might have gotten a price as high as 40 times earnings. But now other computer retailers are trading at less lofty multiples: Businessland trades around 20 times earnings, and Entre Computer and MicroAge both have P/Es of 10. Clearly, the days of top dollar in IPOs are over—even for a quality issue like ComputerLand.

False bottom?

Does the dollar's recent strength have staying power? Not according to many doubters on Wall Street. Reason? Politics. Traders figure if George Bush gets elected the dollar will fall, because his closest economic adviser, Martin Feldstein, has been calling for a 100-yen dollar for two years now. If Dukakis wins? Same thing. He, too, will find a cheap dollar the easiest way to keep exports flowing and the trade gap narrowing. The bottom line: The dollar may be near its low, but don't try to follow the recent rally.



Still in the family

Who says it's all over after the sale of a family business? Not the Silverman clan, creators and keepers of *Variety*, the entertainment-biz bible. Privately held by the Silvermans for 83 years, both weekly and daily *Variety* were sold last October to Cahners Publishing, an American subsidiary of Britain's Reed International. But rather than taking the reported $65 million from the sale and running, the founding family chose to continue running the papers.

And we mean family. Publisher Syd Silverman, 56, is the grandson of the paper's founder. His identical twin sons, 31, are associate publishers: Michael Silverman helps run daily *Variety* in Hollywood and Mark manages the weekly version in New York. A daughter is associate editor of the weekly *Variety* in California. The only Silverman who's not on staff is a son who just graduated from college.

Boston-based Cahners is happy to see the Silvermans stay. Terrence McDermott, president of the company's magazine division, says *Variety* will be the single most profitable acquisition the company's made in a decade. That's saying something: Of Cahners' 60 special-interest business and consumer magazines, 59 were acquired by the company. Last year *Variety* carried about 3,700 pages of advertising, big numbers in any league.

Will Tsai sell?

The talk of Smith Barney in recent weeks is that Chairman Gerald Tsai wants out of the brokerage business, and fast. Sources say Mr. Primerica is negotiating to sell parts of Smith Barney to two buyers: The firm's retail sales network is reportedly being shopped to Merrill Lynch, while Smith Barney's investment banking group may go to a German bank.

Although Tsai bought the broker at the top of the market in June 1987 for $750 million, its revenues have hit a

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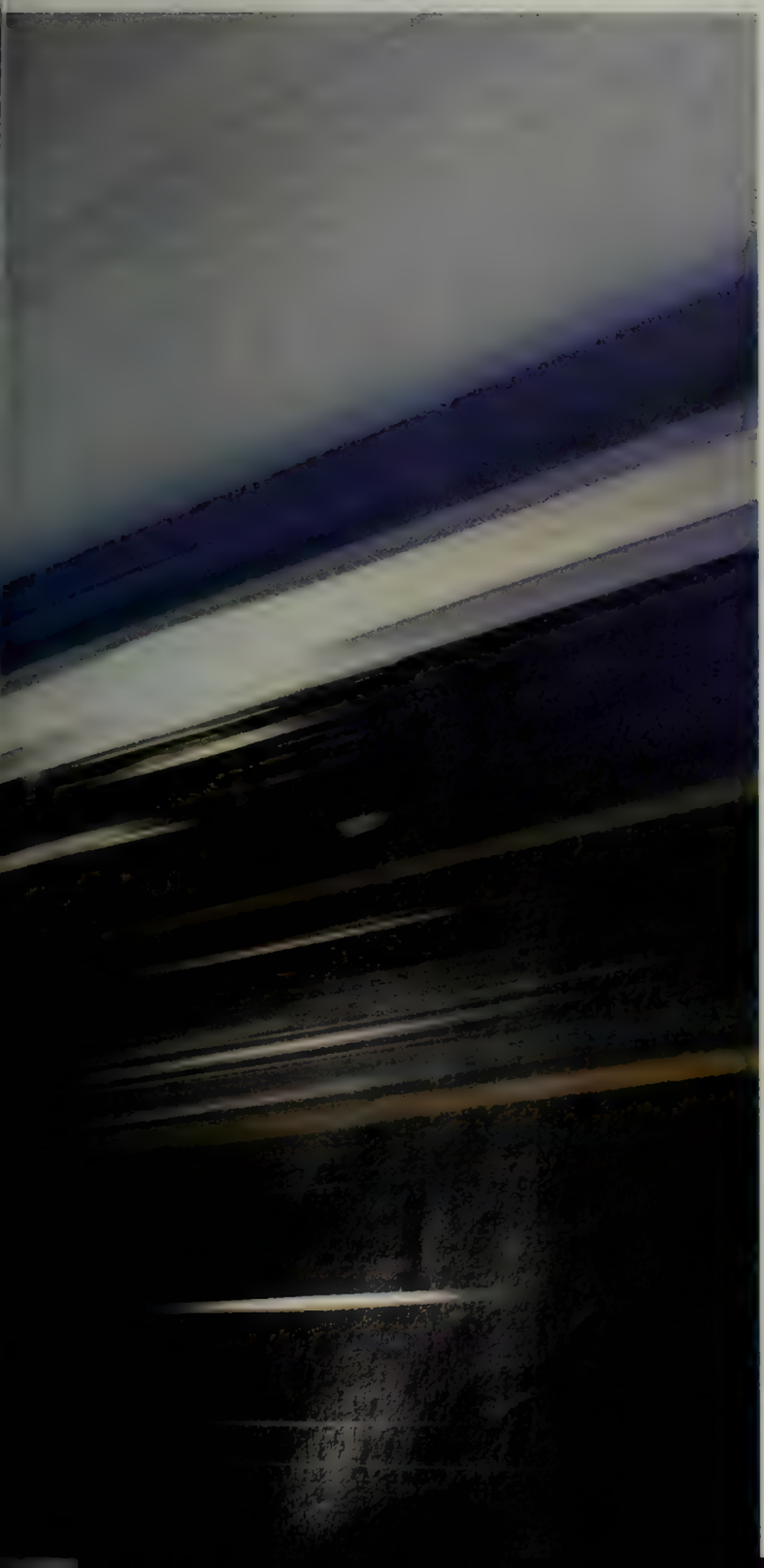

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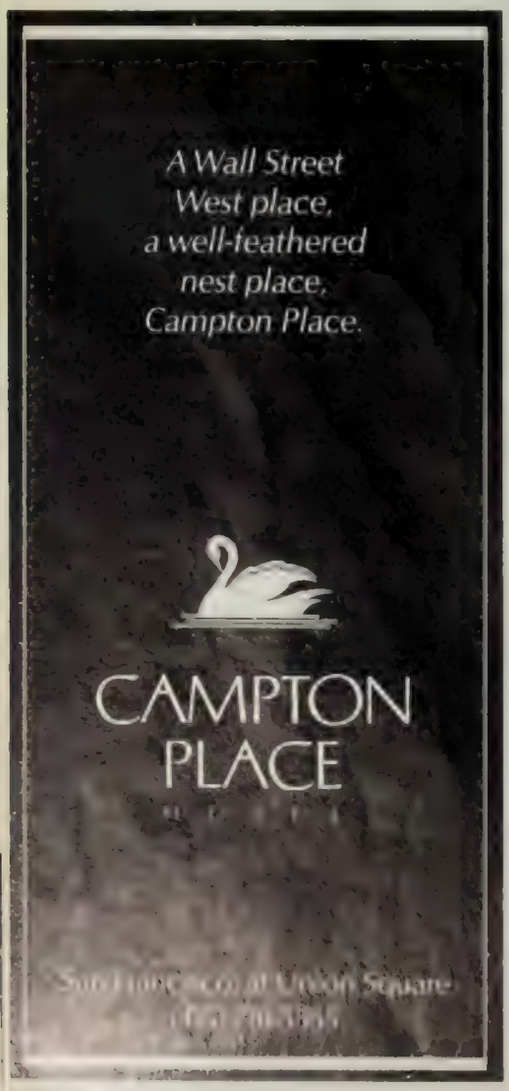

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brick wall this year. He has already closed down Smith Barney's arbitrage department. Is dismemberment in store for Smith Barney? Neither Merrill nor Tsai will comment, but Tsai is an old trader, and a trader's first rule is: Cut your losses fast.

A debt-for-resort swap

Gary Cralle/The Image Bank

Montego Bay, Jamaica
Sun, sand and a debt/equity swap.

Here's a novel approach to the Third World debt-for-equity swaps in vogue these days. Jamaica, in an attempt to sell 12 resort hotels that the government bailed out and bought in the 1970s, has offered to sell the properties with a discount twist. For example, if a foreign buyer wanted to purchase a $10 million property, he could get it for $8.75 million if he agreed to buy Jamaican debt as part of the deal.

For Sale signs at the properties so far have caught the attention of investors in the Far East, North America and Europe. The Jamaicans' asking price—an average of $50,000 per room—seems laughably cheap to some folks. Or it's a discount on political risk. Japanese investors in February paid a record $1 million per room for Hawaii's Westin Mauna Kea resort.

Page One news

What's behind the abrupt late June departure of *Wall Street Journal* Page One editor Lewis D'Vorkin? Insiders call it a case of personal and professional self-destruction. D'Vorkin, a 36-year-old ex-*Newsweek* business editor, made few friends in his six-month tenure as Page One editor on the *Journal*: he ousted several of the editors on the Page One staff and was an outspoken critic of his predecessor, Glynn Mapes. Several of the paper's bureaus had complained about D'Vorkin's demand for frothy and personality-oriented stories—he reportedly dismissed the farm drought as too boring for a front-page piece. He also disliked substantive, mainstream business stories. A good business journalist is someone who can do an article about the drought, salt it with numbers and still keep it interesting; anyone can make sex and personality interesting.

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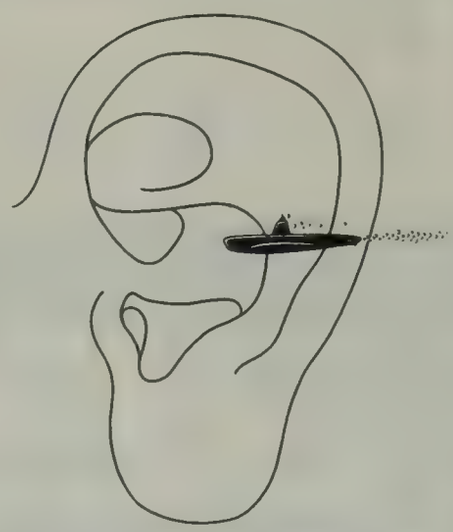

Pumps that operate silently enable Trident submarines to become nearly undetectable to sonar.

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Readers Say

Stargazed

SIR: Among all thy wanderings, verbal and otherwise, the dizziest in years is your defense of astrology in the White House *(Fact and Comment, May 30)*.
—Roger Alburn
Baltimore, Md.

Posner prejudice

SIR: I cannot believe your June 13 Fact and Comment item "This is judging as it should be." If Posner owed a fine of $3 million plus service, it was owed to the people of the U.S. for the elected representatives to dispense, not for some unelected judge to dole out to his favorite charity, no matter how worthy. Next time he might give it to his alma mater, which may not be yours. It is tough enough to keep Congress in line spending federal monies, but if we have to deal with thousands of federal appointees, creating and administering new federal social programs, we can give up trying now.
—J.E. Courtney
Cleveland, Ohio

SIR: I have always been of the opinion that in evaluating those who mold public opinion one must look to quality and not quantity. That has certainly been true in the case of Mr. Posner's sentence. I'll match FORBES magazine and the *New York Times* against the world any day. Editorial comments such as yours being read at the end of the day can be as soothing as a good "Stoly."
—Eugene P. Spellman
District Judge,
United States District Court
Miami, Fla.

Faulty feet

SIR: Jerry Wexler seems like a good guy ("An 'unstructured' tycoon," *June 27*). Being a tennis player with a similar problem, I probably wouldn't call him for the foot fault, as pictured on page 84.
—Jerry W. Ellisberg
Raleigh, N.C.

SIR: Shame on Jerry Wexler; he is about to foot fault if he hits that serve! From the look of the scuffs on the court, it will not be the first time.
—Roger P. Woodbour
New York, N.Y.

Steve Leonard

Jerry Wexler on the line

Long odds

SIR: While you correctly note that being Vice President has helped many candidates gain their party's presidential nomination, for the last 150 years none were elected to the presi-

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dency *(Fact and Comment, June 27)*. Unlike the knuckleheaded writer of Fact and Comment, Senator Bill Bradley must certainly know that the most recent incumbent Vice President to be elected President was Martin Van Buren, in 1836.
—Gary Haubold
New York, N.Y.

Why buy?

SIR: Re your article "Terrific! I hate it" *(June 27)*. Advertising is influential, not persuasive. Buying decisions are based on cost, value, quality and brand reputation. Does Mr. Forbes choose Harley-Davidson due to the effectiveness of their ads?
—Brian M. Leary
Dallas, Tex.

Clear skies ahead

SIR: We are concerned with the article "Stormy weather stocks" *(June 13)*. Quite frankly, we cannot understand your reference to "Ford's hidden, off-balance-sheet liabilities." Ford's financial condition is excellent and our balance sheet is strong. On Mar. 31, 1988 the company had $10 billion in cash and marketable securities. At the same time, stockholder's equity totaled almost $19.5 billion and our financial ratios compared very favorably with other major corporations'.
—David N. McCammon
Vice President Finance,
Ford Motor Co.
Dearborn, Mich.

Unlimited energy

SIR: Your article "Oil, politics and power" *(June 27)* points out that oil prices are determined by economics, not politics. Of course, there is just so much oil on planet Earth, but in an economic sense, energy is infinite. When one source becomes too costly or unavailable, something else will replace it. That's been our history, and no doubt it will be our future.
—Richard W. Warshaw
Pleasanton, Calif.

Old Dixie's down

SIR: Your article "Border games" *(June 13)* fails to mention that North Carolina has a wealth tax that is two-and-a-half times greater than Florida's. For an investor in securities which pay little or no dividends, the N.C. tax can literally be 100% or more. For such an investor, N.C. is probably the worst place in America for taxes—even worse than New York City.
—Fred Stanback Jr.
Salisbury, N.C.

Hot, hot, hot

SIR: Your article "Burn this" *(Apr. 25)* incorrectly identifies emissions of dioxin as a harmful residue of low-temperature plastic combustion. Incinerator operating temperature—not the waste composition—is the critical factor in controlling the production of dioxins during the incineration process.
—Dr. Richard S. Magee
Newark, N.J.

Mistaken identity

SIR: Your annual Forbes 500 list *(Apr. 25)* mistakenly referred to PG&E as formerly being Pacific Lighting Co. You may not be aware of it, but another California utility, Pacific Lighting, changed its name to Pacific Enterprises in February of this year.
—Don R. Hanes
Pacific Gas and Electric Co.
San Francisco, Calif.

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The U.S. Sailing Team: Racing in a sea of Silver and Gold.

In 1984, three hundred of the world's best sailors arrived in Long Beach, California, for the XXIII Olympiad. It was an event that had dominated their thoughts if not their lives for years. Yet of that elite number one group would emerge preeminent —the members of the United States Sailing Team.

In a remarkable performance, American sailors took medals in all seven classes. Gold for Star, Soling, and Flying Dutchman; Silver for Tornado, Windglider, Finn, and 470.

Gold Medals for Star, Soling, Flying Dutchman.

Since then, American sailors have continued to dominate world competitions. And, in the heated scramble for berths on the American team that goes to South Korea, they have put together an outstanding win record with more than forty medals at the Goodwill and Pan American Games, The Olympic Practice Regatta, and world championships.

It's a remarkable record achieved by sailors whose skills were honed by the most rigorous programs of the Olympic Yachting Committee of the United States Yacht Racing Union.

1984 Olympics. Soling Gold Medalists Rod Davis, Ed Trevelyan, Robbie Haines.

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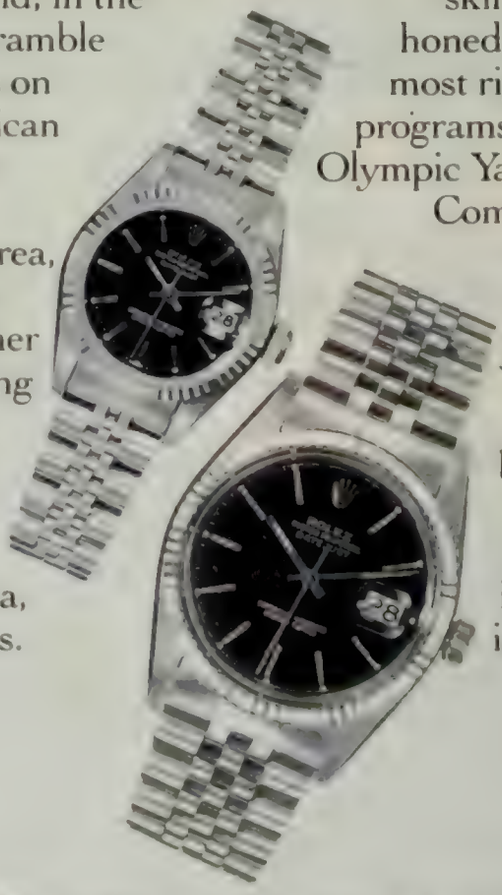

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

VPs ARE PICKED ON THEIR ABILITY TO BE PRESIDENT?

Presidential candidates pick running mates solely-wholly because they think their picks will help the top of the ticket become top of the nation.

It's pure coincidence if a presidential nominee's choice for his Veep in the course of time and events becomes President and turns out to be able in the job.

GEORGE BUSH'S PRESIDENTIAL PROSPECTS

from now on should be better than they were.

IF JACKSON'S FIGHT FOR A PALESTINIAN STATE ENDORSEMENT,

having succeeded in a number of state conventions, results in a floor fight at the Democratic presidential conclave in Atlanta, it will not help Michael Dukakis carry California or New York or any other state where Israel's survival is a prime concern.

IF BUSINESS' BIGGEST WORRY IS 60-DAY PLANT-CLOSING NOTICES,

our economy's health is even healthier than we thought.

IF ONLY GORBY WERE RIGHT ABOUT THE STATE DEPARTMENT

For the Washington Summit last winter, Gorbachev benefited enormously from first-rate briefings on almost everything and everyone—including the psychology of Americans who respond warmly to smiles and impromptu handshaking crowd sorties, among other things.

But in one respect—unfortunately—he got it wrong.

At the beginning of his address at the luncheon hosted by Secretary of State George Shultz, I could hardly believe my ears when hearing Gorbachev felicitously refer to the Department of State as "a highly authoritative body."

If only Congress treated State as such.

If only Congress would recognize how vital State is. That Department abounds with people who are authorities on most every country and every matter that impacts our foreign relations. But Congress continually hacks the State Department's budget. They have slashed muscle and sinew to the extent that the United States and its representatives in ever more parts of the globe are almost paralyzed by threadbare budgets.

Federal legislators are always hitting on the State Department, which has no constituency, except that it stands for, represents the whole nation to the rest of the world. Ironically, Capitol critics often are the first to freeload at our posts and outposts abroad.

Constantly depriving and curtailing the State Department's ability to do its essential job worldwide is mighty dangerous. Let's hope some gutful senators and congressmen will champion a department that sorely needs some.

JAPANESE FLOORED BY FIRST LISTING OF THEIR BILLIONAIRES

I think you'll find interesting this report by journalist and author Daniel Burstein on Japanese reactions 12 months ago to our first unearthing of their billionaires:

"From the moment of my arrival in Tokyo last June to research a book on Japanese finance, everyone I interviewed seemed at some point in the conversation to drop in a request to me, 'Tell us all you can about FORBES magazine.' These were pretty high-level folks—presidents and chairmen of all those big banks and brokerage houses that are now the mightiest in the world, for example. I

myself started to get pretty curious as to what was prompting this crescendo of quizzical inquiries. My wife and I d[illegible]d this astonishing minitrend of our trip, but we [illegible]d only conclude that FORBES was finding a wider following in Japan because, as we have noticed on our travels through the Far East over the last few years, it is really the only American magazine that gets deeply under the skin of Asian business.

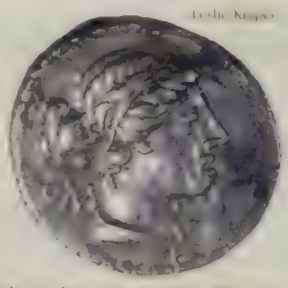
"Then I awoke one morning to discover the English-language Japanese newspapers delivered to my hotel door all carried the news that Japan had more billionaires than the U.S., according to FORBES magazine. This was probably two or three weeks before the Japanese billionaire survey actually hit the stands in the U.S. It seemed like all of Tokyo suddenly had FORBES on its lips. By that afternoon, I'd read about it in all the English papers, been told it was prominently mentioned in several of the major Japanese dailies and had it mentioned to me by no fewer than three out of four interview subjects of the day.

"In the weeks that followed, I kept hearing about it everywhere I went. And what I heard varied from shock to delight; from fear of the publicity to soaking it in; from disbelief that the Japanese had become so rich to ready theories of cultural supremacy to explain why it was so. In short, all the wide gamut of reactions that proves a magazine is doing a breakthrough job. It's hard to tell the Japanese much about themselves they don't already know—but you did it!"

THE RICHEST ROMAN WAS TRULY CRASS

Among the riches in this annual FORBES international issue are the names and pithy bios of the world's 125 billionaires. A separate listing includes the U.S.' 67. Two thousand years ago Rome's richest man was Crassus (115–53 B.C.), who was better at amassing wealth than wielding his army ("No man is rich who cannot support an army"). From his life and lifestyle has come that super putdown word "crass." The following chapter about the "billionaire" of this early era is from our latest book, *They Went That-A-Way* (Simon & Schuster, $18.95—if you'll forgive me for being crass).

"You can sum up the character of Crassus with the root of his name—crass. The richest Roman in the time of Julius Caesar, Marcus Licinius Crassus was legendary for his money-grubbing. Crassus organized one of the first fire brigades in Rome and would have his men show up at a fire and sell their services. Meanwhile, Crassus would quickly negotiate to buy nearby endangered buildings—at fire-sale prices—then put out the flames before his new properties were damaged. He amassed several hundred houses in Rome and charged high rents, giving him a fortune nearly equal to the annual revenue of the state treasury. Crassus used his money to finance Julius Caesar's campaign for the crown, and for his deep pockets he became one-third of the First Triumvirate and governed the empire with Caesar and Pompey.



Silver denarius c. 93–91 B.C.

"Crassus had his own standard by which to measure his wealth. 'No man is rich,' he said, 'who cannot support an army.' Crassus got his chance to put his money where his mouth was in 54 B.C. when, as governor of Syria, he raised an army against the Roman Empire's constant enemy, the Parthians. But unfortunately for Crassus, financing an army wasn't the same thing as managing one. He led his troops across the Euphrates River only to be routed in a battle at Carrhae that killed his son.

"With his troops ready to mutiny, Crassus accepted an invitation by the Parthian general to meet for a peace parley. Upon arriving, he was summarily beheaded. His head was sent to the court of the Parthian king, Orodes II, where according to legend it was tossed into a performance of Euripides's *Bacchae* as one character mourned the death of another. Orodes, who had heard of the self-bought general's unscrupulous business reputation, had molten gold poured down Crassus's throat, saying, according to one translation, 'Sate thyself now with that metal of which in life thou wert so greedy.' For the record, Crassus had invested in silver."

FOOTNOTES TO THE BIG FIGHT THAT WASN'T

The closest I had ever come to attending a live world championship boxing match was to watch that harmless, lumbering lunk Primo Carnera training for his Title defense against challenger Maxie Baer in 1934. So I leapt to accept when that dynamo pair of entrepreneurial champions Donald and Ivana Trump sent an invitation to dinner and a ringside seat for the Tyson-Spinks "fight of the century."

Everything about the evening was exciting, even the [illegible] Tyson in 91 seconds, made the Great Fight no fight at all. Spinks, smarter than most prefight pundits, looked scared when the bell bonged and looked happy ($13 million worth) to be alive when he was finally able to get up from the canvas.

At the celebrity-studded dinner, every other hand one shook belonged to a Name. It was fun to reminisce with Milton Berle, whose comedy hour in TV's earliest days was the prime reason people bought sets. Uncle Miltie seemed genuinely delighted to be sitting with Jackie

Mason, today's foremost genius of wit. Asked by *New York Post* columnist Cindy Adams where his wife was, Milton Berle replied: "She's home. She only likes the fights she starts."

When I met with the most impactful political fighter of these times, Jesse Jackson, he handed me a buck, put his arms around me and said, "I want to be able to tell everybody Malcolm Forbes owes me money!" At ringside later he signed it, adding the words, "Keep hope alive."

Michael Bavaro/Outline Press

MSF owes one to Jesse

During the dull pawing match that preceded the main event, the best show was provided by the fight crowd's reaction to the gamut of celebrities as each was introduced. Greeted by the biggest cheers were Jack Nicholson and Muhammad Ali. George Steinbrenner ran away with the Biggest-Boos prize. Not far behind were Sean Penn and Tyson's wife, Robin. In the business-biggie category, Larry Tisch was smatteringly booed while Carl Icahn was smatteringly applauded.

During dinner some TV newsmen asked my prognosis on the fight. "Mr. Tyson's biggest battle won't be in the ring tonight, but tomorrow when he tries to get a handle on his $20 million take." Asked what I'd suggest he do with this mountain of dough, "I advise him to first get it in *his* hands and then try at any cost to hang on to some of it."

"THEY'LL PROBABLY INVESTIGATE TO SEE IF I FIXED THE FIGHT,"

the evening's biggest winner told me, after they'd toted the Tyson night take at Trump Plaza and Trump Castle. With the nice Mr. Spinks on the canvas almost before the bell tolled, the arena crowd who'd paid record sums for their seats weren't about to go straight home. They poured into the already humming Trump casinos' aisles and dropped what Donald reports is "the largest single evening's betting in the history of gaming—$15 million at the Plaza, plus $6 million at the Castle, for a total of $21 million." Having paid $11 million for the live gate and approximately $1.3 million for promotion and expenses, he said he'd broken even on the cost of buying and staging the fight itself.

Trumpeted Don: "I couldn't have arranged the fight, from the point of view of our casinos, any better. Tyson's quick knockout win makes it very tough though to build up another challenger. Trying to make Evander Holyfield sound like a credible contender will be tough. People are getting tired of these creations."

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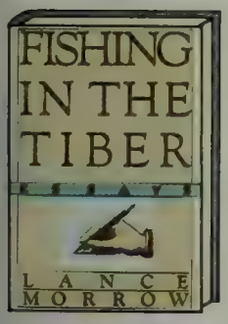
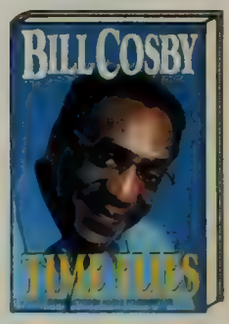


● **Fishing in the Tiber**—essays by Lance Morrow (Henry Holt & Co., $19.95). In prose that is lyrical, stark and sparkling, Lance Morrow sheds luminous light on many of the most perplexing and fascinating challenges facing America. It's rare that you can so enjoy and even chuckle while being wised up. I warmly recommend that you go *Fishing in the Tiber* with our time's most eminent essayist.

Excerpts: *Kennedy would have found the solemnity and mythmaking amusing, and hopelessly overdone. His intellectual style was sardonic and self-aware: Wonderful lights of satire played across it. If he sometimes labored hard at being a hero, or seeming a hero (before his election in 1960, he listened intently to recordings of Winston Churchill's speeches, picking up the grand rhythms of the language), he knew the limitations of everything, including himself. He might even have had some mordant crack to make about that Eternal Flame. . . . Humphrey Bogart was a brilliant smoker. He taught generations how to hold a cigarette, how to inhale, how to squint through the smoke. But as a kisser, Bogart was an awful example. His mouth addressed a woman's lips with the quivering nibble of a horse closing in on an apple. . . . Everyone learned how to kiss from the movies. It is difficult to imagine what people did before Edison for instruction in the subject. They blundered through, no doubt, across centuries of bruised lips and chipped teeth, and the clumsy lunges that end with noses banging, or the woman accidentally mummphing a mouthful of beard.*



● **Time Flies**—by Bill Cosby (A Dolphin Book, $15.95). Despite many laughs, it's more like leftovers than a sequel to Cosby's hilarious first book, *Fatherhood*.

Excerpts: *I wish that there were a way to take a shower and still keep on my clothes, for the sight of my naked body to me is like an X-rated film to an archbishop. . . . I helplessly watched my body turn from a temple to a storefront church. So I became a part-time athlete, desperately trying to recycle myself to a rough approximation of my former mint condition, desperately trying to keep my father's body from taking over mine. The odds on my succeeding were almost as good as the odds on a bullfighter losing his ear to a bull. . . . "Don't worry about senility," my grandfather used to say. "When it hits you, you won't know it."*

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Standard Oil, the original Standard Oil Company founded 118 years ago by John D. Rockefeller, recognized as an outstanding refiner and marketer.

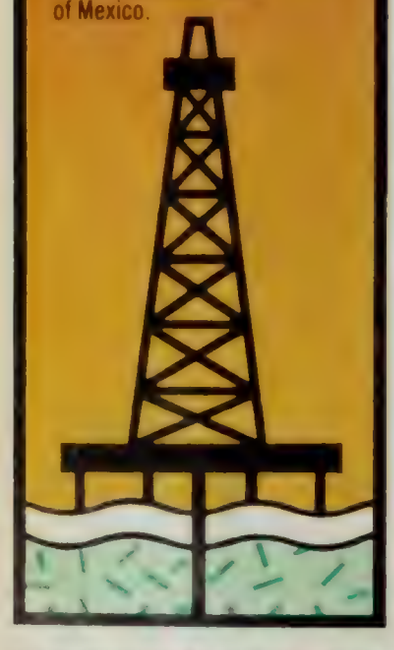
Together, these skills provide the best of both worlds in the volatile business of oil.

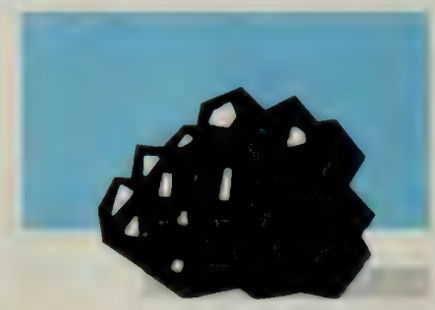
But this balance of oil expertise is not the only benefit. A focused diversity of other businesses helps to balance BP America's total corporate portfolio.

Today, BP America, located in Cleveland, Ohio, is a major partner in a global enterprise. Its futu will be shaped by the combined strengths of two great companies.

It is the best of both worlds.

Every day, BP America pumps more than 850,000 barrels of crude oil and natural gas liquids. Our net proven reserves now total more than 3 billion barrels. And the search continues for new oil in Alaska, California, and the Gulf of Mexico.

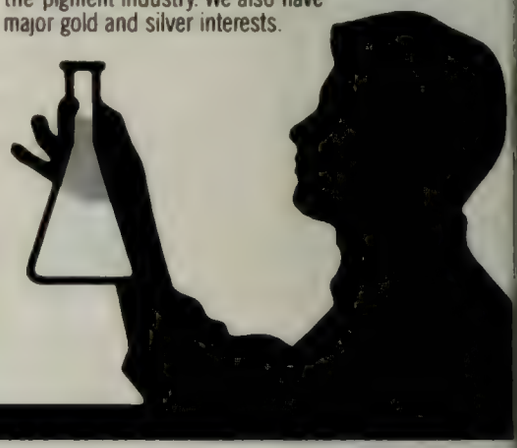




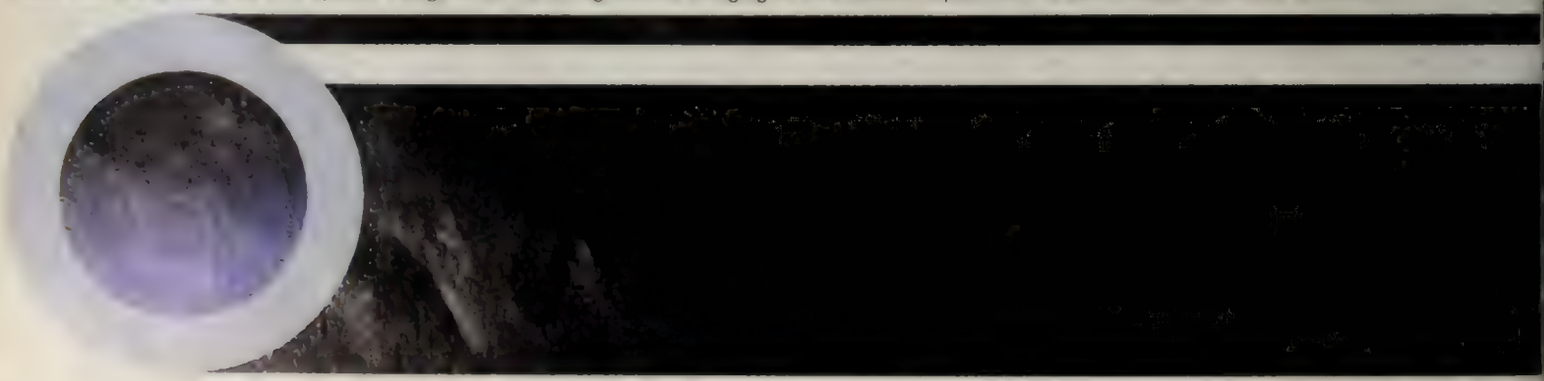
Our Old Ben Coal subsidiary supplies electric utilities and other major customers with a dependable source of energy. New state-of-the-art mining equipment is lowering our costs.

BP Minerals America is modernizing the huge Bingham Canyon mine in Utah to make it become one of the wor lowest-cost producers. In Canada, our QIT subsidiary the world's leading producer of titanium dioxide slag f the pigment industry. We also have major gold and silver interests.

Acrylonitrile, acetic acid, and ammonia are basic chemicals used by industries as diverse as textiles, plastics, paints, and agriculture. BP America is a major producer and marketer of these and other chemicals.

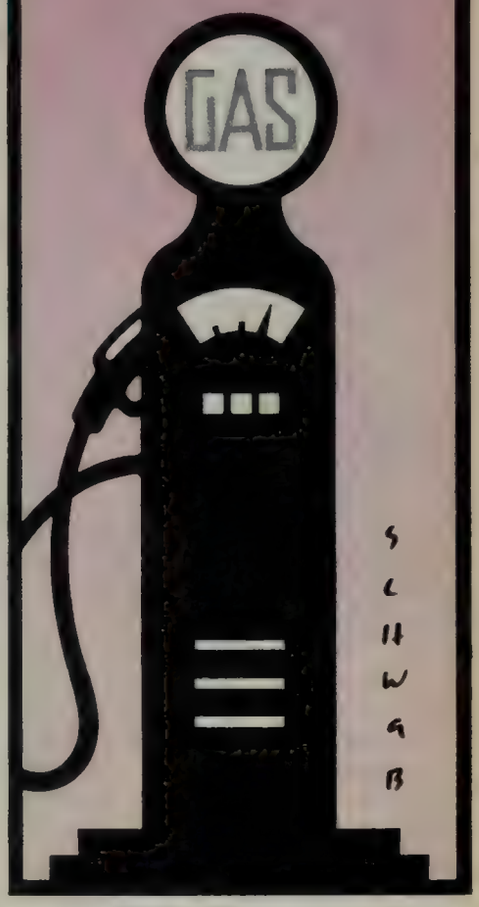


BP America owns 50% of the 800-mile TransAlaska pipeline. Within the Lower 48 States, we use a network of more than 11,400 miles of pipeline, owning directl more than 2,300 miles. We also operate a large fleet of U.S.-flag tankers, bringing oil from Alaska to ports on the West Coast and the Gulf of Mexico.



BP America is the nation's largest supplier of bunker fuels to the marine industry. We have terminals in most major U.S. seaports. We also supply more than 100 domestic and international airports in the U.S., retaining an 8% market share.

BP America sells gasoline and diesel fuel, lubricants, natural gas, and many other petroleum products. Prime brand names are Sohio,® Boron,® BP,® and — in eight southeastern states — Gulf.® Retail products are marketed at 7,550 retail outlets.



BP America's refineries are exceptionally productive and last year operated at 93% capacity, compared with an industry average of 84%.

Our lightweight composites, and other advanced material technology, are finding a ready market in aerospace, automotive, and marine industries. And we are an innovator in high-temperature structural and electronic ceramics.

BP is the world's largest producer of feeds for the livestock industry. Through our ownership of Purina Mills, BP America has 65 feed mills in the U.S. Last year, we produced over 4 million tons of compound feeds, supplements, and special diets for poultry, pigs, and cattle.

BP

BP AMERICA

THE BEST OF BOTH WORLDS

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

How To Stay Wealthy

Simply making money is not enough. It is necessary to hang on to it—and keep recycling it—if one is to remain rich. In fact, it is not even essential to *own* a lot of money to have economic power. What's important is to *control* wealth—to determine where it goes and how it's used.

—*The Invisible Billionaire, Daniel Ludwig,* by Jerry Shields

Wall Street Then

The movie, *The Wheeler Dealers,* was a comedy made 25 years ago. High jinks on Wall Street could be considered funny because the rest of America was solid, dependable, and middle class. There were no X-rated movies and no drugs in the schools. The United States dominated the world economy, and the Japanese had yet to send their cars to America. OPEC was a joke, a few Arabs in their Kaffiyehs passing resolutions that carried no weight. On the real Wall Street you had to love the game, because you didn't make money for many years. Lee Remick might have made $10,000 a year as an analyst, as would any young lawyer. The money on Wall Street was made by the partners—silver-haired patricians in their fifties who all belonged to the same clubs and left the office at 4:00.

Great companies stood astride the American scene: GM, Alcoa, Gulf, Union Carbide. Companies like these were run by portly, whiskey-drinking WASPs who played golf with Eisenhower. It was unthinkable that any of these great companies could be taken over. And no one used Wall Street—or business—as a background for novels or movies.

—Adam Smith, *Esquire*

"Any place at all where the dollar is still almighty"

The Real Champ

There's only one person who can beat Tyson and you've been reading about her [his wife, Robin Givens] all week. I don't live in a glass house so I ain't gonna throw any stones, but he better take care of business.

—Larry Holmes, former heavyweight champion, *New York Post*

Hay & No Brits

The Fourth of July came in haying time, so none but very small boys could celebrate it and they were not allowed to burn themselves with firecrackers. The only amusement for small boys was to organize a parade with paper caps, tin pans and Pumpkin squawkers. We sometimes tried to get up a sham fight between the Continentals and Britishers, but it was only 50 years after the close of the Revolutionary War, and no one could be induced to personate the British.

—David Beach, *Beach Family Reminiscences and Annals,* in *Antiques*

Unread Success

The big nonfiction current events chronicle or policy tome or political memoir doesn't exist to be read. They exist to be gazed at, browsed through, talked about. They exist, above all, to be reviewed. These aren't novels, written for the ages. These books are written for esteem, money, and policy influence. All those good things derive from the reviews far more than from the book itself. . . .

Fortunately for booksellers, their prosperity depends on people buying books, not on people actually reading the bulky things. A report just published by the Book Industry Study Group asserts that half the population reads books, and that "the average book reader read 24.8 books over the six-month period" preceding the survey. Oh, sure. Asking a self-defined "book reader" how many books he's read lately is like asking a teen-age boy how far he got on Saturday night.

—Michael Kinsley, *Curse of the Giant Muffins and Other Washington Maladies*

I'm not irritated or upset about capital inflows into the United States. Capital inflows do tend to increase our productivity.

—Wayne D. Angell, Federal Reserve Board governor, in Reuters

Who Needs Sex?

Biologists are still debating the most fundamental question of all: Why did sex evolve in the first place? Not only amoebas but bacteria and dandelions get along fine without it, and they are among the most successful propagators and colonizers of new territory on this planet. In fact, the first two billion years of life on earth were almost totally sexless. Even today, in most of the kingdoms of life, most species are asexual. It is clear that the human animal, the snake and the apple tree are part of an experiment that none of them really understands.

—Jonathan Weiner reviewing *The Dance of Life: Courtship in the Animal Kingdom,* by Mark J. Walters, in *NYT Book Review*

He's Not Running

Mr. Bush acknowledged what he has been reluctant to say before: that his interest now that he is the Republican nominee is at times different from that of the President. Asked why Mr. Reagan had not responded to the report [recommending protection for AIDs victims] as quickly as he had, the Vice President quipped, "Well, he's not running for President."

—Gerald M. Boyd, *New York Times*

Joke

The mayor of Tel Aviv, the Honorable Shlomo Lahat, told us a joke. A group was asked, "Excuse me, what is your opinion of the shortage of meat?"

The Pole answered, "What is meat?" The American said, "What is shortage?" The Russian asked, "What is opinion?" And the Israeli shrugged, "What is 'Excuse me'?"

—Liz Smith, *Daily News*

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The Honda Accord is world-class comfortable."

–Car and Driver

It's enough to make us blush.

The Accord LX HONDA

Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

PERESTROIKA FOR THE PENTAGON

The sensational Pentagon procurement scandal underscores the need for fundamental reform. Even Communists now acknowledge that socialism doesn't work in creating a vibrant economy. It's time the executive branch and Congress recognize that it also doesn't work in developing and purchasing military hardware. Our current system is an American version of the Soviet Gosplan.

The nubbin of the problem: Forty years ago, the U.S. made a decision to have on active duty far more officers than are needed in peacetime. The idea was that by "stockpiling" officers, we could rapidly build up an effective military force if war came. That's why we have more generals and admirals today than we did in World War II, when our armed forces were six times the size they are now. Nice theory, but the problem is obvious: Officers must be given something to do in the meantime and so responsibility is sliced and sliced again. These people spend inordinate time tripping over each other, checking each other's work or trying to justify their existence by repeatedly changing weapons specifications.

Paul Peters

Reformer Luttwak

What's to be done? A little bit of free enterprise. Experts such as Edward Luttwak of Georgetown University's Center for Strategic and International Studies have long advocated eliminating tens of thousands of uniformed bureaucrats now involved with development and procurement (and beefing up our combat capabilities). Instead, the Pentagon should compile simple (by military standards) lists of specifications for performance of weapons. It should not try to micromanage how a contractor actually fulfills its obligations so long as the hardware performs as it is supposed to and comes in at the contracted price. Right now, the Pentagon will involve itself in every conceivable detail—and then some. The Pentagon and the Services need about one-tenth of their current weapons personnel.

Voters would cheer if Dukakis or Bush proposed sensible changes along the Luttwak lines.

Will either have the perspicacity to do so?

WHO WILL CARE FOR THE CHILDREN?

This question will become a major campaign issue. With so many mothers in the work force, Democrats see an opportunity to steal the "family" issue from the Republicans. They are promoting a scheme in Congress to vastly expand Washington's role in encouraging and regulating day-care centers. The bill will cost $2.5 billion initially and quickly escalate to tens of billions of dollars in a few years.

Scared of appearing indifferent to the problem of child care for working mothers, some Republicans have responded with a scaled-down alternative that is basically an imitation of the Democrats' plan.

This approach to child care is flawed. Most parents prefer to leave their youngsters with relatives, neighborhood baby-sitters or with day-care services provided by local churches or synagogues. Only one child in ten is in the kind of large center envisioned by the Democrats. As currently written, their bill would help drive out the relative-neighborhood-church approach; it favors creating a vast day-care bureaucracy, enormously increasing the cost of child care. The bill punishes families in which the mother stays at home by having their tax dollars subsidize working couples.

There is not a scintilla of credible evidence that the centers favored by the Democrats do a better job with young children than the approaches now overwhelmingly favored by parents. Ironically, under the likely regulations for certifying day-care workers, most American mothers would be found unfit to raise their kids.

With so many mothers working, what is a realistic alternative? Take the money the Democrats would spend on their scheme and instead give parents a meaningful tax credit or exemption for each child under the age of six. Let the mothers decide how to provide care for their children. Representative Richard T. Schulze (R–Pa.) is introducing legislation along these lines.

The government has no business favoring one form of child care over another.

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AUDIOVISUAL

AV should be more than faithful sight and sound reproduction. Ideally, it also creates drama and ambience.

Digital technology (the conversion of conventional signals into computerized zeros and ones) has led to a remarkable proliferation of audiovisual uses — in TV, for example, or more diversified and sophisticated programming and information services accessible through computer connections or videotex terminals. And this is only the beginning.

Hitachi's scientists and engineers are using digital applications such as frame memory to develop Improved Definition TV. IDTV will greatly improve picture quality without changing current broadcasting standards by doubling the density of scanning lines and increasing vertical resolution 1.5 times. This same Hitachi technology has resulted in the Digital Audio Tape recorder, which is capable of superior recording and reproduction..

Hitachi's original screen technology has led to high-density big screen projection TV, using screens up to 110 inches. It is contributing to a wholly new technology, High Definition TV. HDTV is capable of photographic quality resolution and will soon enable satellite services to transmit wide screen images that give the viewers the feeling of actually being there.

We link technology to human needs, and believe that our special knowledge will lead to numerous easy-to-use systems and products with highly advanced functions.
Our goal in audiovisual — and in medicine, energy and transportation as well — is to create and put into practice products and systems that will improve the quality of life the world around.

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GE Capital

Edited by Howard Banks

THE BOOMLET IN CAPITAL SPENDING

Manufacturing will fund internally a 10% spending jump

ALMOST ALL SECTORS OF U.S. INDUSTRY, from high-tech chipmakers to rust belt sectors supposedly headed for their last rites, are taking part in the capital investment splurge now under way.

Corporate spending plans this year, having been raised steadily and sharply over the past six months, are 10% ahead over 1987. The increase is largely being funded internally from rising profits.

The boomlet results from rising demand at home (GNP is now expected to grow 4% this year), aided by the improving export demand thanks to the lower dollar.

Most spending will improve efficiency, not add capacity

THE SPENDING SPREE has spread well beyond sectors, like paper and chemicals, known to be near full capacity. Some examples:

• Steel output is now expected to hit 80 million tons this year, up from 75 million tons forecast three months ago. U.S. steel producers are predicting a 23% increase in capital spending this year, after a near 40% jump in 1987. It's a jump from a low base, but it's still remarkable.

Most steel spending will improve efficiency. But look, too, at Inland Steel's joint venture with Nippon Steel in a new $400 million, million-ton-a-year continuous finishing mill for wide strip for the auto and appliance markets.

• Nonferrous metals companies also plan a sizable—20%-plus—increase in investment, following an 11% increase last year. Kaiser Aluminum, after years of low investment, will spend $150 million on such items as a wide coating line at its Trentwood, W.Va. mill.

• Copper refiners are investing, but not just because of the 47% jump in price (to $1.12 a pound) in a year. Mainly it's because techniques such as solvent extraction have improved competitiveness.

• Machine tool maker Cross & Trecker has repatriated work from two joint ventures in Japan. For instance, its Warner Swasey subsidiary near Cleveland has replaced a jointly built turning center with a new machine, called Titan, and has added a second shift there.

• Microchip equipment makers, such as KLA Instruments of Santa Clara, Calif., are running to meet demand from chipmakers caught short after three years of underinvestment.

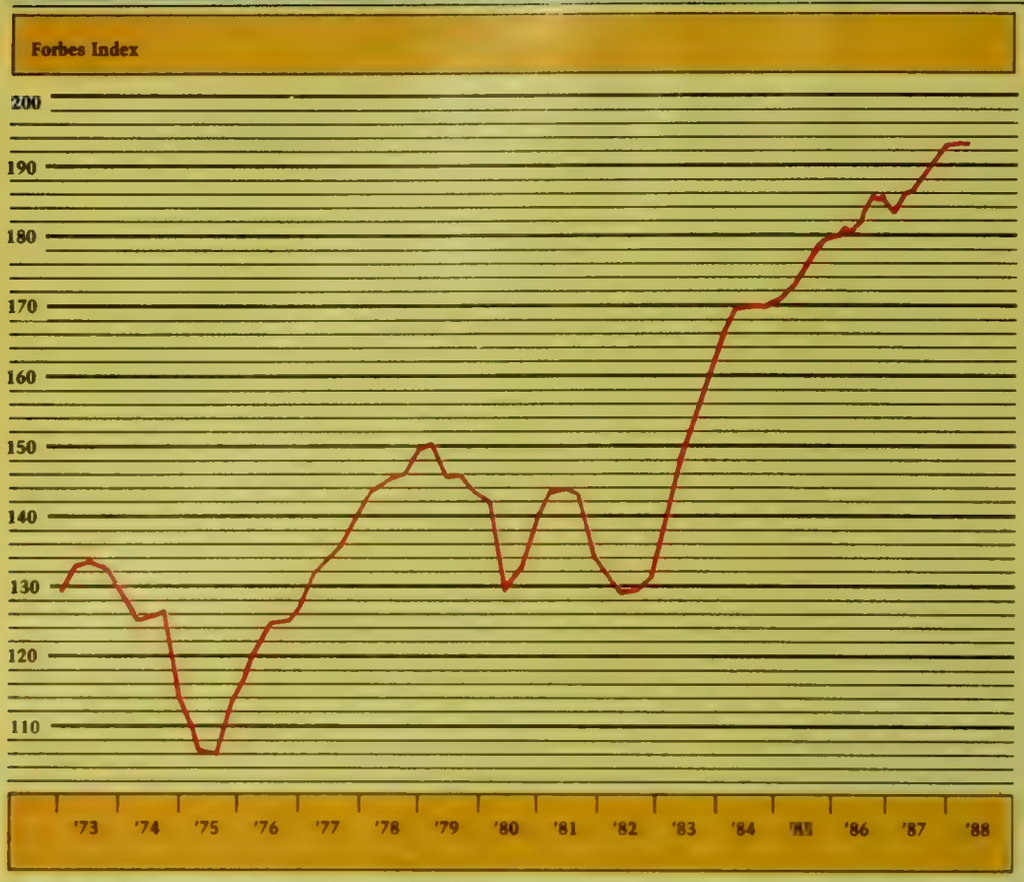
The improvement may not be short-lived

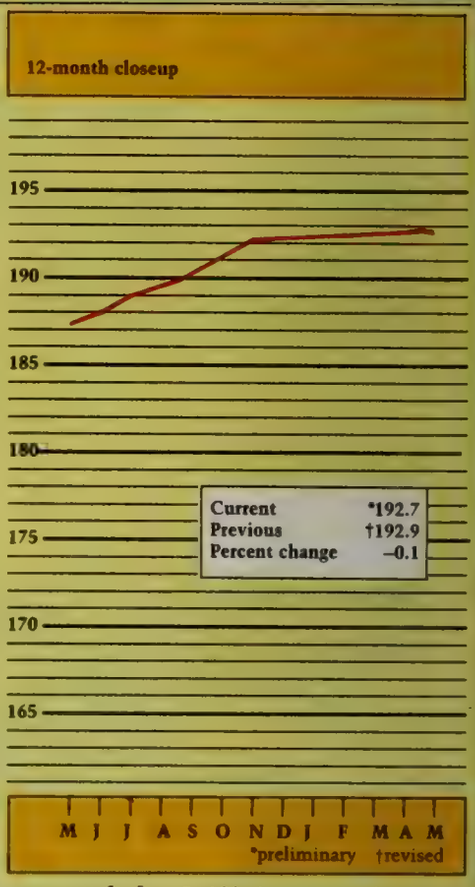
HOW LONG WILL SPENDING CONTINUE AT PRESENT LEVELS? DRI's survey, taken in May, suggests it will be short-lived, forecasting a drop approaching 3% next year.

That could be overly pessimistic—if export demand continues to rise and/or if investment by the auto and truck sector picks up from this year's expected 5%-to-7% decline in capital spending.

This year's investment uptick does, of course, hold great promise for improved competitiveness for U.S. manufacturing. But remember, it's not happening in isolation. Japanese companies are themselves investing heavily, reversing a two-year slowdown.

The Forbes Index





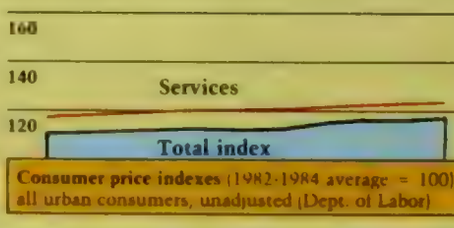
Signs of slippage. The Forbes Index has turned downward for the first time since January 1987. The preliminary May figure shows a decline of 0.1%. (We will have a final number once the May consumer installment credit number is released.) The Index was hurt by the recently reported 1.9% drop in manufacturers' new orders, coupled with a 0.7% rise in inventories to a record $223 billion. The 9% decline in housing starts and the 3.4% increase in new unemployment claims reported earlier in the month also pulled down the Index.

The Consumer Price Index (not seasonally adjusted) was up 0.3% in May; the services component was up 0.4%. If the weather in the farm belt does not improve in the near future, the inflation rate is bound to increase.

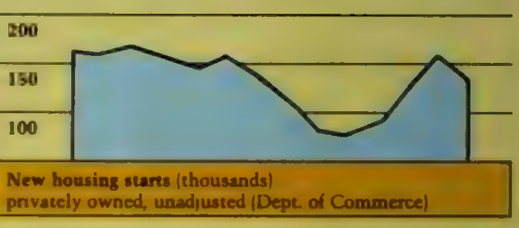
The Forbes Index Components

The Forbes Index is a measure of U S economic activity composed of eight equally weighted elements Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit

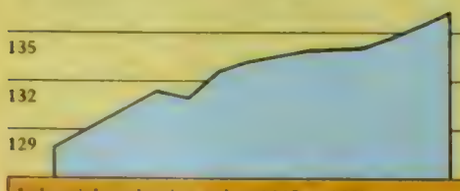
To measure these eight elements, FORBES monitors ten series of U S government data The last 14 months data for each series are presented at right



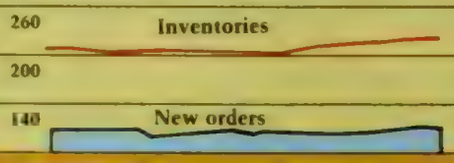
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)



New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)

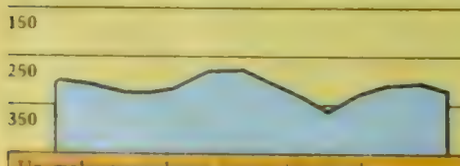


Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

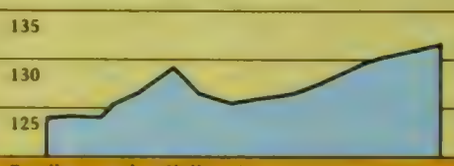


Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

A M J J A S O N D J F M A M A M J J A S O N D J F M A M A M J J A S O N D J F M A M

After grappling with the bulls and bears of Wall Street, the Lion of Nemea would have been a pushover.

Barehanded, Hercules made short work of the Lion of Nemea. He even got a trophy out of the deal—a lion skin for his back.

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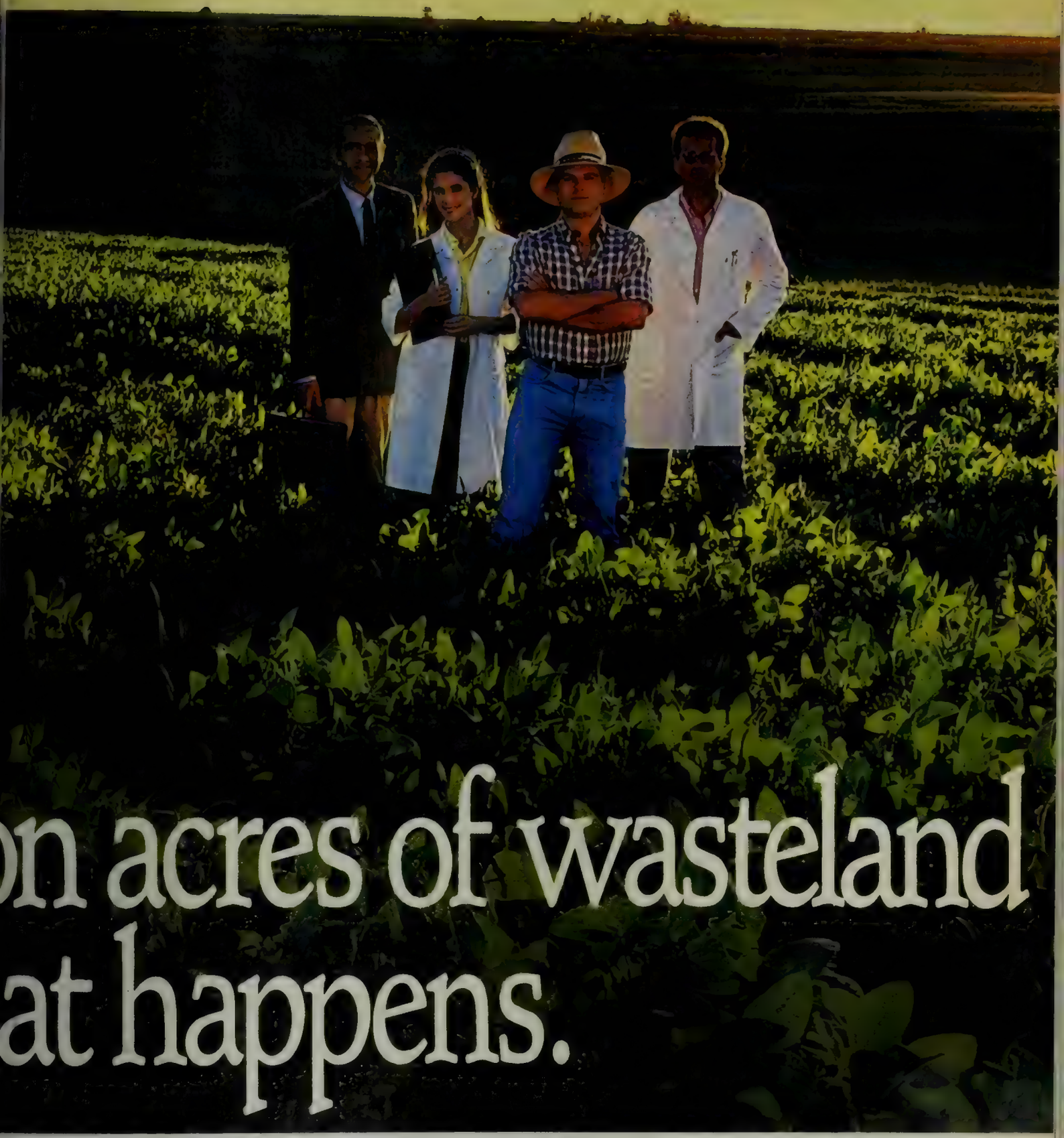

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True, when some people first see the
vast garden called Paraná, they call it a miracle.
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"They didn't even offer me tea or coffee," says Kao Corp.'s Yoshio Maruta of his recent visit to Procter & Gamble. There's a good reason for P&G's lack of hospitality.

High noon in Cincinnati

By Andrew Tanzer

PROCTER & GAMBLE doesn't care much for Japan's Kao Corp., its new neighbor in Cincinnati. Yoshio Maruta, Kao's president, met with Chairman John Smale and several other P&G executives in June. Kao had just paid $300 million—38 times pretax earnings—for American Brands Inc.'s Andrew Jergens unit, headquartered in Cincinnati. The soap, lotion and shampoo maker will give Kao a crucial beachhead in the North American market. Knowing that, Smale did not go out of his way to make Maruta feel at ease.

"I went [to P&G headquarters] to pay respects because we're a newcomer to Cincinnati," Maruta, safely back in Tokyo, tells us. "They didn't even offer me tea or coffee."

P&G's coldness is understandable. Having trounced P&G in Japan *(see* FORBES, *Dec. 15, 1986)*, Maruta, 73, now intends to take on the U.S. giant—and Unilever and Colgate-Palmolive—on American soil and in Europe. At one of Kao Corp.'s laboratories in Tochigi Prefecture, 70 miles north of Tokyo, boxes of Procter & Gamble, Unilever and Henkel detergents are stacked next to piles of soiled white shirts. Washing machines from GE, Whirlpool and AEG are spinning away furiously, using hard waters like those found in Germany and in the U.S. (Japanese do their wash in soft, cold water).

Like most successful Japanese multinationals, Kao ventures abroad from a solid home base. One of Japan's best-managed companies, Kao has launched a series of hit products and boosted its share of Japan's mature and fiercely competitive toiletries and cosmetics markets. Kao's aptly named Attack detergent, unveiled in April 1987, grabbed 25% of Japan's $1.4 billion detergent market within a year. Its Sofina line of cosmetics, introduced in 1982, is now the leading brand in Japan and has put industry leader Shiseido on the defensive. Kao

Photos by David Wade

Kao products in a suburban Tokyo supermarket
Attacking the U.S. from a solid home base.

also ranks first or second in soap, disposable diapers, sanitary napkins and hair care products.

Kao is very much David to P&G's Goliath. Last year Kao's aftertax earnings rose 22%, to $106 million, while sales were up 11%, to $4 billion. P&G, by contrast, last year earned $786 million on sales of $17 billion. But Kao is big enough and Maruta resourceful enough to be a menace.

Holder of a doctorate in chemical engineering and 16 patents, Maruta invented a process for producing aircraft lubricant from vegetable oil during World War II, when the Japanese military was short of petroleum. An aggressive, charismatic president for 17 years, Maruta is an avid mah-jongg player and has been known to pull detergent samples from his pockets at geisha parties. No believer in consensus, Maruta dominates the company. "All of his strategies have worked—distribution, diapers, cosmetics—so his employees have to follow him," explains Jun Shoda, director of product planning at Lion Corp., Kao's biggest Japanese competitor.

If Kao's net margins appear to be on the low side, notice that the company is spending over $500 million a year to automate and redesign its Japanese plants and reduce the work force in eight factories from 4,500 to 2,000 by 1990, while boosting output by over 30%. "We're doing this to survive in the 21st century," says Yuzo Sumida, director of of Kao's Wakayama research lab. "Dr. Maruta thinks big."

The emphasis on research and development and on manufacturing has a simple rationale. "You can cheat housewives once, but not twice," explains Ikuno Nakamura, Kao's director of the office of the president. When Kao entered the disposable diaper market in Japan in 1983, its Merries brand devastated P&G's Pampers. Don't blame protectionism. Kao had developed a superabsorbent polymer superior to Pampers' pulp base, which reduced diaper rash.

To develop Attack, a highly concentrated cleanser that transformed the Japanese detergent industry within months, Kao's Tochigi lab spent four years digging up dirt samples around the world before it discovered the bacteria that produces alkaline cellulase, the enzyme that cleans cotton. The laboratory then spent more than two years synthesizing the enzyme through genetic engineering to produce a detergent four times as concentrated as the standard powder. Soon after Attack attacked, Kao's detergent market share jumped 15 points, to over 50%.

Maruta's passion for the technical side of the business shapes the marketing side. When Kao entered the cosmetics business, he built upon Kao's technical reputation. "Kao's cosmetics ads are like their detergent ads," notes Bernard Barber, executive vice president of McCann-Erickson Hakuhodo Inc. A typical Kao commercial demonstrates through a microscope how Sofina cleans the skin—rather like American household products TV commercials in the 1950s and early 1960s. This is the reverse of the emotional image ads of Shiseido and Kanebo.

On pricing, too, Maruta, can be tough. Noting consumer resistance to Shiseido's high prices, Kao underpriced the industry leader. He also sold through Japan's fast-growing supermarket chains. Last October Shiseido announced a $210 million writeoff for excess inventories. This year Kao projects sales of Sofina will surge 40%, to $400 million.

For all its success in Japan, Kao has yet to show it can beat P&G, Colgate and Unilever in overseas markets. Overseas business accounts for 10% of Kao's sales, but 70% of that is in Southeast Asia. As Nakamura puts it: "It's harder to sell a bottle of shampoo than a Walkman." To adapt its toiletries and cosmetics to different hair, skin and bathing habits, and to local water, climates and consumer tastes, Kao has set up research labs in Berlin, Paris, Barcelona, Los Angeles and Taipei in the past few years.

But superior technology and quality will not be enough in the battle for foreign markets. "We'll have to shift toward a more marketing-oriented approach," Maruta admits. Kao will soon establish regional headquarters in New York, Düsseldorf and Singapore to decentralize management away from Tokyo. "The business must be managed where the action is," insists Nakamura. "The fewer Japanese we have overseas, the more successful we'll be."

Hence the high price Maruta paid for Jergens. The Cincinnati company will provide distribution, production capacity and marketing expertise—and, most importantly, name recognition. Kao will gradually introduce its line of household products in North America under the Jergens name. Kao will supply Jergens with raw materials from North Carolina-based High Point, a specialty chemical company it acquired last year.

Can 98-year-old Kao beat Procter & Gamble on P&G's home turf? "Our efforts should be directed at consumers," says Maruta, diplomatically. "I never think about competitors." His competitors should be thinking about him. ■

Kao President Yoshio Maruta
"I never think about competitors."

Meshulam Riklis loves to borrow money. Having borrowed himself rich, he has now figured out how to borrow money, not on assets or cash flow, but on his own paper.

There are two kinds of money

Financier Meshulam Riklis
There's no dollar like a cash dollar.

By Dolores Lataniotis

MESHULAM RIKLIS became rich by following his own maxim. It is a simple, cynical maxim. It says that there are two kinds of money. There is the cash kind; you never part with that kind. Then there is the other kind, which you pay out quite willingly to acquire hard assets. That other kind, of course, is paper—bonds, notes, promises to pay. That kind is cheap.

Thanks to the power of that kind of money, Riklis has borrowed himself rich. Starting over 30 years ago as a poor Israeli immigrant, he has traded debt for assets to the point where he controls a $3 billion empire. At 65 he lives in a Beverly Hills mansion with his second wife, singer-actress Pia Zadora, 32. And he is still profligate with paper.

In the last two years he has quietly moved about $700 million worth of valuable assets out of his bondholders' reach and substituted paper. Here is how he did it:

Back in 1985 Riklis bought out Rapid-American's public stockholders but left its existing debt securities in public hands. He then owned 100% of the equity in a debt-ridden but cash-generating conglomerate. Rapid and its McCrory subsidiary now have 23 debt issues totaling $750 million, much of it owned by institutions. It costs Rapid about $150 million a year to service this and some other debt.

The debt is rated as junk, but Riklis has had little trouble servicing it. Though $1.5 billion (fiscal 1988 sales) McCrory's earnings plunged last year, other subsidiaries have been cash cows, including liquor distributor Schenley Industries; Faberge, a toiletries company; and McGregor, an apparel company.

In fiscal 1986 (ended Jan. 31, 1986), the last full fiscal year these assets belonged to Rapid-American, Rapid reported operating earnings of $196 million. Of that, Schenley accounted for $61 million and Faberge/McGregor accounted for $58 million. The bondholders could look to these cash flows to meet the $150 million annual debt service requirements. Or, in the event Riklis ever defaulted, they could look to the assets themselves.

By 1986 Riklis wanted to make acquisitions again. But Rapid/McCrory was borrowed up to the hilt—even Riklis now describes the company as "very overleveraged" then.

Riklis hit upon an ingenious solution. In May 1986 he took the cash-generating Schenley and Faberge/Mc-

Gregor assets away from his Rapid/McCrory and gave them to his Riklis Family Corp.

Wasn't Riklis depriving Rapid/McCrory's bondholders of the best part of their collateral? He paid Rapid for the assets he stripped out. Not in cash, of course; that would violate his maxim. In paper. In place of the assets he took out of Rapid, he put paper: a newly concocted nonvoting, cumulative preferred stock issued by a new Schenley company and by a newly merged Faberge/McGregor, combined under the Faberge name. Out went the solid collateral. In came paper collateral.

Note that the new stock received by Rapid is nonvoting. This means that Rapid's and McCrory's public bondholders have no direct control over the Schenley or the Faberge assets.

With the Schenley and Faberge/McGregor assets safely in hand, Riklis was ready to start building Riklis Family's cash and do some deals. A year and a half after stripping out the assets, Riklis Family Corp. sold Schenley to Britain's Guinness Plc. for $419 million ($309 million in cash).

Riklis Family Corp. is in excellent shape to start leveraging up and making acquisitions. There is the cash from the Schenley sale. There are the Faberge/McGregor assets, which earned nearly $60 million on revenues of $460 million two years ago and are probably earning significantly more today—but nobody on the outside knows, since, unlike Rapid, Riklis Family Corp. has no public securities outstanding and so files no financial statements.

Thus geared for leverage, last month Riklis Family offered $1.2 billion for American Brands' E-II Holdings. E-II is essentially a pile of cash—the hard kind. Against that it owes $1.5 billion in junk bond debt. Right up Riklis' alley: the two different kinds of money.

American Brands bought E-II as a defense against E-II's attempt to buy American Brands. Having sold assets from E-II, American Brands wanted to pay off the debt, which carried a 13% interest coupon. American Brands, having a prime credit rating, could borrow easily at 10%. But E-II's bondholders refused American Brands' offer of a 4% premium over face value; they preferred bonds backed by a prime credit risk. Frustrated, American Brands put E-II on the block. If the bondholders wanted 13%, they wouldn't get it from American Brands. All's fair in high finance. The market reacted to Riklis' offer by slashing the value of the E-II bonds.

In buying E-II, Riklis gets a pile of real cash and earning assets and will take debt on his books at a cheaper rate than he could otherwise borrow it. E-II bondholders are suing American Brands to get the money they lost when the bonds' prices fell on the announcement of the sale to Riklis. They have charged American Brands with asset stripping and with misrepresenting their intentions.

Why didn't Rapid-American's bondholders sue Riklis for stripping out the Schenley and Faberge/McCrory assets? Three possibilities: (1) the maneuvering did not violate the bonds' indentures; (2) the bondholders didn't understand what was happening; and/or (3) they understood but didn't want to go public and look like fools.

Several institutional bondholders refused to discuss the matter. Trustees for the bondholders professed they have had no problems with Rapid-American or McCrory bonds. Says Kathleen Kelly of bond trustee Bank Leumi, "Our job is to see that bondholders receive interest or principal, and there's never been a problem."

What about Drexel Burnham, the firm that made junk bonds famous and has done a few Riklis deals? Drexel is playing no part in the substitution of collateral. The deal, in fact, is pure Riklis. Expanding on the concept of leverage, of which he is a past master, Riklis has figured out how to borrow money, using his own paper as collateral. Pretty subtle. But will the bondholders sit still for it? ■

The FCC's lottery for cellular phone company licenses in rural America has unleashed a scam that could cost unwary investors more than a billion dollars.

Cellular suckers

By Fleming Meeks

"THIS WILL PUT YOU on equal footing with MCI, AT&T and Bell Telephone," Mark Morris of Fort Lauderdale, Fla.'s Continental Communications, Inc. confidently tells a potential investor, who has called from New York in response to one of Continental's ads in *USA Today*. What is this wonderful investment? For just $2,500, says Morris, the caller can get in on the cellular license bonanza, where centimillionaires have been made. Trying to do it yourself, Morris adds, will cost $200,000. The caller thanks Morris and hangs up. If he's smart, he'll never call again.

Morris isn't the only charmer working the phones to push visions of riches in the cellular schemes. Kurt Stratton, of the Cellular Corp. (which claims offices in San Francisco, Cleveland, Washington and Reno), is also selling cellular license applications. A $10,000 "investment," says Stratton, has an 81.6% chance of winning shares in licenses that will immediately be worth around $120,000. That's if you flip your winnings. If you hold on, says Stratton, your share of pretax profits within three years will be $45,000. "But you'll probably win three or four" licenses, he adds. Stratton neglects to mention that the Cellular Corp. and another application mill, American National Cellular, which between them took in about $30 million in a previous round of lotteries, were prosecuted for misrepresentation by the Federal Trade Commission in 1985. In the course of a settlement, only about $1 million was recovered.

Morris, Stratton and several other promoters around the country are fishing for suckers dazzled by the boom in metropolitan cellular license values. The promoters are pushing applications for the Federal Communications Commission's five rounds of lotteries for licenses to operate cellu-

lar phone companies in 428 rural service areas, or RSAs.

The way it works, Morris says: You invest $2,500 in a "cross market settlement group" with, say, 400 other investors. This group applies, through Continental Communications, for licenses in all 428 RSAs. If your group wins, you own a quarter of 1% of a license to operate a cellular phone company. And your chance of winning at least one license, he says, is 99.7%. In fact, he says, you'll probably win four or five.

What the promoters don't say is that even if an investor does win, he'll probably win a quarter of 1% of something worth nothing—or maybe five times nothing.

The reason is that most of the RSAs are so isolated that they won't for many decades be able to generate enough telephone call traffic to support viable businesses. Example: RSA 5 in eastern central Nevada has a population of 11,899, spread across 19,537 square miles. Or RSA 3 in northern central Idaho. It has 14,284 "pops" for 11,392 square miles. According to Andrew Roscoe, of Economic & Management Consultants International, an Arlington, Va. firm specializing in mobile communications, nearly 60% of the RSAs up for grabs are basically worthless.

Yet the cellular suckers keep biting, thanks in part to a few well-publicized deals. A tiny minority of the RSAs are valuable, particularly those that are near urban areas and offer a strong potential for "roamers," or cellular phone users who keep talking as they move from one metropolitan license area to another by crossing through an RSA license area. Philadelphia's Comcast Corp., a cable television operator, recently paid a record $135 per pop (a total of $230 million) for American Cellular Network, primarily for Amcell's roamer revenues.

All the smart operators know which RSAs are valuable and which are not, making the chances of winning a valuable one practically nil. Promoter Mark Morris says there will be only 62 applications per RSA. But many cellular industry watchers believe that there may be 2,000 or more applications for each of the better RSAs. At 2,000 applications, the simple probability of not winning one of the truly valuable RSAs is 97.4%—a surefire way to lose your money.

Morris, careful not to differentiate between valuable and worthless RSAs, says that from 90 to 120 days after the lottery, a winning investor will be able to flip his interest, bought at $2,500 for $10,000—quadrupling his money in a quarter of a year! For eastern central Nevada's RSA 5, that would work out to $337 a pop—nearly three times the highest price ever paid for a cellular license.

Suppose you win an RSA license and hold it. The FCC gives you 18 months to make at least part of your area operational. Otherwise, you lose your license. Minimum capital investment required: around $750,000, although the FCC is asking applicants to present a line of credit for at least that amount in advance.

How do the promoters get around this? Continental says it will provide investors with a "financial commitment" letter signed by an equipment manufacturer. The letter says that if you win, you'll be able to use the license as collateral to borrow the cost of building and operating the system. The FCC tells FORBES this contingency commitment may not be acceptable, which would automatically disqualify the application. Another way to say good-bye to your money.

How many suckers will bite? No one really knows. (The first applications—for six RSAs in Alaska and Hawaii—were not accepted until July 13.) But industry watchers believe that the number will be at least 250,000. And some believe it could range as high as 850,000. Prices for these applications range between $400 and $5,000. At an average cost of $1,500, that means unwary investors could lose between $375 million and $1.3 billion on the RSA scams. Stephen Markendorff, chief of the FCC's cellular branch, says his agency is aware of the abuses but is powerless to stop them. "For every hole we plug," he says, "another one is going to pop up."

Madness. Sheer madness. ■

A couple of Italian financiers may have found some diamonds buried in the ashes of the Cannon film group.

Cannon rises again

By Lisa Gubernick

In Hollywood mysterious money and eccentric characters are as common as pinstripe suits on Wall Street. But even by Hollywood standards, Giancarlo Parretti cuts quite an unlikely figure. He speaks in broken English, tucks his tie into his trousers and gets notably agitated when a reporter asks how he found the funds to save the Cannon Group. The company was sinking fast until he came up with money and took over the chief executive position. Together with a partner, Florio Fiorini, he now owns 39% of the stock.

"You want to see where my money comes from?" he sputters, tossing out a sheaf of papers. "It's not coming from the Mafia," he says, taking a puff on his Havana cigar.

"Here's from the bank. Triple A opinion. This is from the president of Liberia," he shouts, flashing a reproduction of his diplomatic passport, which declares Parretti to be honorary consul to Spain from the western African nation.

Credentials aside, Parretti and Fiorini did save Cannon from Chapter 11. Two Israeli immigrants, cousins Menahem Golan and Yoram Globus, took over the independent film company in 1979. They made their name producing low-budget hits, such as *Breakin'* and Chuck Norris' *Missing in Action* (both distributed by MGM). But those successes are long gone. The fact is, Cannon has not had a box office winner since *Cobra* (distributed, developed and financed together with Warner Communications) in 1986.

P. Ledru Sygma

Cannon's Yoram Globus and Menahem Golan
Squeaking by, thanks to Italian investors.

Cannon's well-chronicled troubles include being sued by the Securities & Exchange Commission in 1987 for fraudulently misstating earnings—shortly after Forbes ran a story questioning whether Cannon's reported earnings really added up.

The recent news hasn't been good. The company reported a $98 million loss ($11.15 per share) for 1987, and most recently posted a $14 million operating loss for the first quarter of 1988. Analysts anticipate first-half losses could add up to $25 million to $30 million. Shareholders, meanwhile, have seen their stock drop from a high of 45½, reached in 1986, to a recent 4.

Despite all that, Parretti claims to have invested upwards of $250 million to keep Cannon afloat. Why would anyone put so much money into what appears to be a disaster? According to Fabio Serena, the company's newly installed general counsel, the pair was attracted to Cannon, in large part, because it is traded on the New York Stock Exchange.

Even if the film business fails, they could roll several of their other companies into the remaining shell and take an important step toward establishing visibility in the American business community. Among their interests: Interpart, a Luxembourg-based holding company; Melia International, a Spanish real estate, hotel and travel company; several Italian finance companies; and an Italian oil company with ties to Libya.

And just as important, for all Parretti's talk of injecting a quarter-billion dollars into Cannon, it appears that the pair has risked very little. "If you accept the premise that he could shut this company down tomorrow and get a hundred cents on the dollar out, then you realize what a shrewd gamble this is," says Serena.

Giacomino Foto

Cannon Chairman Florio Fiorini
Coming to America.

Public documents show that Parretti and Fiorini's investment is closer to $180 million than the $250 million Parretti claims. And between the dividends they've received, the Cannon assets they now control and a couple of other lucrative quirks in the deal, it looks as though Parretti and Fiorini could come close to getting their money out even if they had to liquidate Cannon.

The assets the Italians now control include at least $100 million worth of U.S. real estate, including the 400-screen Kansas City, Mo.-based Commonwealth theater chain and Cannon's Los Angeles headquarters. There is also $102 million in tax-loss carryforwards (worth roughly $36 million in potential tax savings) that can be used to shelter profits when (and if) the company does start making money.

More: The duo originally pledged to buy Cannon's foreign theater group for $200 million. But it turned out Cannon would have faced big potential tax liabilities, so the deal was canceled. But in return for giving up that real estate acquisition, the Italians got to keep 50% of the profit if the properties are sold within the next five years. That could come to around $35 million, according to Lisbeth Barron, an analyst with New York-based Balis Zorn Gerard.

It would appear, then, that the Italian partners could use Cannon to repeat in the U.S. the kind of financial operation they have built up in Europe. Broker L.F. Rothschild is currently offering a $100-million-plus private placement of mortgage-backed bonds so that Alexandria, Va.-based Imperial Inns can expand its operation here; Imperial Inns is part of Melia International.

Where did this interesting pair come from? In the early Eighties Fiorini was the chief financial officer of ENI, Italy's huge state-owned oil company, when it lent $160 million to Banco Ambrosiano, the Vatican's main bank. Ambrosiano ultimately collapsed. The chairman of Banco Ambrosiano, Roberto Calvi, wound up in jail—and was eventually found hanging from a yard-long nylon noose off Blackfriar's Bridge in London. Some $1.3 billion wound up missing in the scandal.

Fiorini, it was reported, was very close, maybe too close, to Calvi. ENI lost its $160 million, and though Fiorini was never implicated in the Banco Ambrosiano affair, he left the company under a cloud.

Parretti, meanwhile, has his own problems. He is currently subject to a criminal proceeding in Sicily, in connection with an alleged misstatement on the balance sheet of a soccer team, Siracusa Calcio.

Welcome, then, Messrs. Parretti and Fiorini, to the broad and rich playing fields of the U.S. ■

Foreigners are spending big money to buy into U.S. media properties. Now, with a fat bankroll, comes Britain's Robert Maxwell.

Jealous of Rupert

By Claire Poole

ROBERT MAXWELL, a Czech refugee who has become one of Britain's richest people, has built London-based but globe-girdling Maxwell Communication Corp. into a media colossus, and in the process made himself worth at least $1.2 billion *(see p. 102)*. Invading the U.S. media world, the enormously energetic 250-pounder has spent almost $500 million in the U.S. in the last two years on printing plants and a newspaper satellite-transmission service. And he intends to spend much more here. Rich as he is, Maxwell clearly is jealous of the figure Rupert Murdoch has cut in international communications—as he made clear in a recent interview in New York with FORBES. Excerpts:

FORBES: With revenues of around $1.5 billion, you are not even halfway to becoming the $5 billion to $8 billion company you said you wanted to be by 1990.
Maxwell: You will read in our annual report that our acquisition program will require a certain amount of temporary dilution of earnings per share. So I'm giving notice that we are willing and able to make major acquisitions. We have approximately $2 billion in stockholder funds from Maxwell Communication alone, not counting Pergamon or the Mirror Newspapers. And no debt. We have credit lines from 11 banks of $2 billion. [And] earnings last year [of] about $250 million. We are willing and able to make major acquisitions.

You've been showing a lot of interest in U.S. media properties lately.
Already 40% of our offices and editors are in the U.S. We are the second-largest printer in the U.S.

You have plans for a national tabloid in the U.S.
We're talking medium-term. *USA Today* has shown that there is a market for a national paper. We have printing plants all over the U.S. in place. And we have in place the satellite transmission system. We could do this with a great deal less than *USA Today*. I

For our efforts to improve our international service, we hoped for some small recognition.

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Car and Driver calls it one of the ten best cars in the world.

We simply cal

The experts have been saying a lot about the Ford Taurus. But then, there's a lot to be said for an automobile that offers world-class style and performance as well as world-renowned value.

It's driven *Car and Driver* magazine to name it one of the ten best cars in the world three years straight. It moved *Road & Track* to select it as the best value in the world over Honda Accord, Mazda 626, and Nissan Maxima (among sedans priced between $12,500 and $17,500, sold in the U.S.). And as *Motor Trend* simply put it: "We should a stand up and applaud."

People, like *Road & Track*, are impresse by its available V-6 power (in a choice of 3.0L or its new 3.8L engine) and its sophisticated 4-wheel independent suspension.

Buckle up—for the life we can save lives.

Road & Track calls it one of the ten best values in the world.

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So many people, in fact, that Taurus outsold every single car the competition made in 1987 (based on calendar year manufacturers' reported retail deliveries). Proof that its celebrated design has impressed more than just automotive editors.

And with Ford's continuing dedication to design leadership, we fully expect the success of the Taurus sedan and wagon to go on and on. And so, we imagine, will the experts' praise.

Ford Taurus

Have you driven a Ford...lately? Ford

Shonna Valeska

Maxwell Communication's Robert Maxwell in Manhattan

"The communications industry is merely duplicating what happened to the energy industry 50 years ago."

don't mind telling you that one of the reasons we were interested in buying the [New York] *Post* was to give us an editorial bridge. Had we acquired it, the plans for a national daily would have moved on a slightly faster track. We need to have the editorial base. That's why we're looking at newspapers right now.

There are rumors that you're buying Western Publishing. Any truth to them?
No. We haven't been asked. As we get bigger, we wish to avoid hostile acquisitions, because they take up too much time. The defense by Harcourt [Brace Jovanovich, which Maxwell tried in vain to take over for $44 per share last year] was found to be legal, and is now emulated by others.

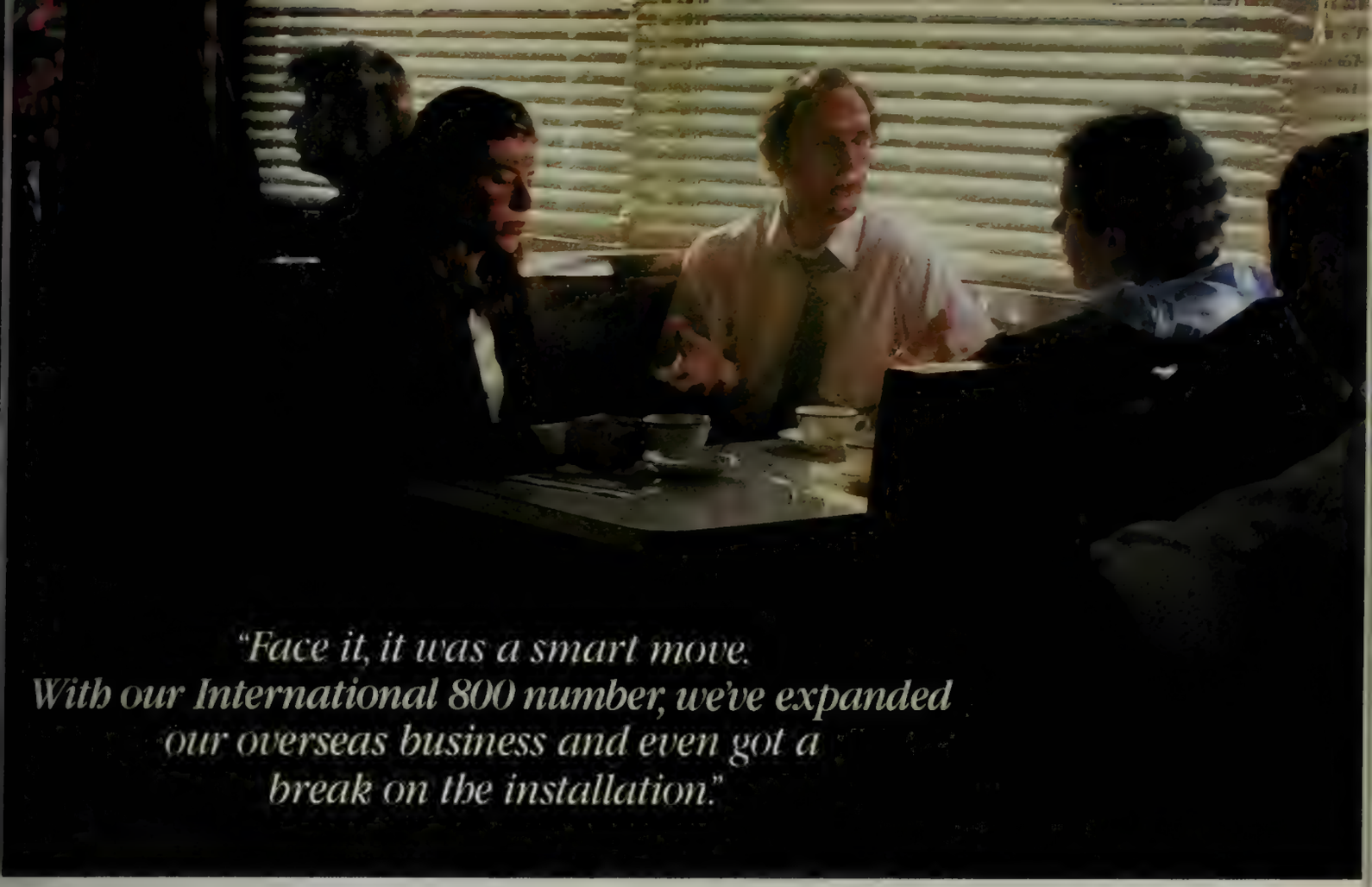
Interested in U.S. television?
Unlike my competitor [Rupert Murdoch], I can't [as a non-U.S. citizen] buy stations. But I am certainly interested in buying television properties. Syndication, distribution, but not stations. We'd be interested in the music and electronics industry. But no stations. I won't give up my [British] citizenship. It's not for sale.

How's your all-European newspaper project going?
We'll start publishing it in the first quarter of next year. It will be similar to *USA Today*.

You've said there'll be only ten top publishing-communications firms left.
There may be 8, there may be 12. It's like the oil industry. Information is as precious a commodity as energy is. An example is Time Inc.—a major global company, immensely strong, and rightly so. They have a guaranteed place. Murdoch is a candidate, the same as I am. And a serious candidate, not to be underestimated. One difference between us, as I said, is that he traded his nationality for licenses for television stations. The other difference between him and me is that if you look at his balance sheet, you find he owes the banks $6 billion, or thereabout. If you look at mine, you will see I owe nothing.

But why will there be only 8 or 10 or 12 media conglomerates? Because of big egos fueling the buying craze?
Egos will always play a part, but I don't think that's what's driving it. The communications industry is merely duplicating what happened to the energy industry 50 years ago. In simplified terms, the 20th century can be defined as an energy century which has been dominated by a few big oil companies—Exxon, Shell, BP, Getty, Standard and so on. The back end of the 20th century, leading into the 21st century, will be a communications century, and will be dominated by something like 8 or 10 or 12 communications companies that are going to play the role of the Seven Sisters in communications. There just aren't that many companies with the kind of resources required to play communications vertically, from pulp at the foot and satellites at the top—and to play it on a global scale.

Murdoch's done pretty well for himself. You once beat him playing poker. Have you ever beat him in the media business?
I said that color was going to be important in newspapers, before *USA Today*, and I spent about $500 million in buying equipment. I told Rupert he should do the same. And he said to me he didn't believe color was important to newspapers. Five months ago, he told me I was right, and he is now buying the same equipment. My newspapers have just started producing in color, and he'll be three years behind us. ■



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While Wall Street staggers under high overhead and low volume, A.G. Edwards sits profitably and waits patiently for the individual investor to return to the market.

Sanity in St. Louis

By Richard L. Stern

WALL STREET is suffering from too much capacity and too little business. But in St. Louis, Benjamin F. Edwards III, chairman of A.G. Edwards, Inc., keeps showing them how to do it right.

In good years on The Street, like 1986, or in bad, like 1984 and 1987 *(see table, p. 52)*, Edwards' margins outshine its strong, regionally based competitors such as Legg Mason and Raymond James, as well as those of the giant national firms like Merrill Lynch, PaineWebber and Shearson Lehman Hutton.

Edwards is no longer merely the strongest of the regional firms. Over the last decade, revenues have increased at about 13% a year as the company steadily hired new brokers. With 3,300 registered representatives in 354 offices in 46 states, A.G. Edwards keeps producing among the highest returns in the industry while building a sales force that now ranks as Wall Street's sixth largest.

Much of the industry has gone galloping after new income from merchant banking, currency swaps and risk arbitrage. Edwards has remained a brokerage house in the true sense of the word. Manhattan-based competitors like Merrill and Shearson have become major players in mergers and acquisitions, while building huge in-house mutual fund operations to capture fund management fees as well as sales commissions. They have become integrated businesses that manufacture much of what they sell. Not Edwards, which prefers to sell products made by others.

And these partly integrated competitors can't match Edwards' net profit margins and return on equity.

"The thing is," says Ben Edwards, 56, with a grin, "I'm just not smart enough to run more than one business at a time. In-house mutual funds would divert both capital and management attention from our basic business as a brokerage house."

Edwards has noticed that although rival firms have gained millions in revenues from management fees and other diversification, overall their margins keep slipping. By not running its own funds, Edwards leaves its salespeople free to push whatever mutual funds they think will do the best job for clients. It seems to work: Three years ago Edwards' mutual fund sales commissions for the first time surpassed revenues from listed securities commissions. Two years ago mutual fund commissions accounted for a record $148 million, vs. $110 million in commissions from listed securities. Even last year, when mutual fund sales fell sharply after the crash, they still brought in $93 million, compared with $115 million in commissions from listed stocks.

M. McLeod Kauffman

Chairman Benjamin F. Edwards III

"Run a tight ship and investors will be back."

Until its acquisition of the investment banking and trading house of Lehman Brothers in 1984, Shearson was also very much a commission-oriented firm, renowned for its tight management. But now Shearson is an integrated investment house, operating in all facets of the business and packaging its own mutual funds. Its profit margin last year was 1.8%, compared with 9.6% in 1983. Edwards', despite last year's Wall Street rout, was 8.6%, compared with 11.4% in 1983, according to Perrin Long Jr. of Lipper Analytical Services.

The fruits of diversification? Shearson had to set up a $60 million reserve for tin trading losses, last year and took a $70 million aftertax hit from its postcrash losses, mostly from its investment banking participation in the ill-timed and ill-conceived public offering of British Petroleum.

At Merrill, earnings last year were $391 million on $10.9 billion in revenues, compared with $454 million on $9.6 billion in 1986. And 58% of its pretax earnings were from one-time transactions, like the sale of its headquarters building.

"Wall Street firms have justified diversification, contending it would enhance profitability, but mostly it has been at the expense of the shareholders," says brokerage analyst Brenda McCoy of PaineWebber. Because Edwards is a retail brokerage, its stock has languished along with the market. It recently traded at 19, or 11 times earnings, slightly below the industry average of 13.

The floor-to-ceiling picture window in Ben Edwards' sixth-floor office looks out at the skyline and at the soaring silvery arch that symbolizes St. Louis as gateway to the West. Far from the trendiness of Wall Street, Edwards and his firm have no plans to become like its bigger competitors. "We'll keep adding salesmen and offices, and helping our brokers increase their production," he explains. "Maybe we'll open retail offices overseas."

Edwards expects the 13% annual growth of the last few years might slow to 7% or 8%, at worst. The firm took a $12 million hit in the crash when three salesmen speculating on their own in options indexes couldn't meet margin calls. Net earnings for its

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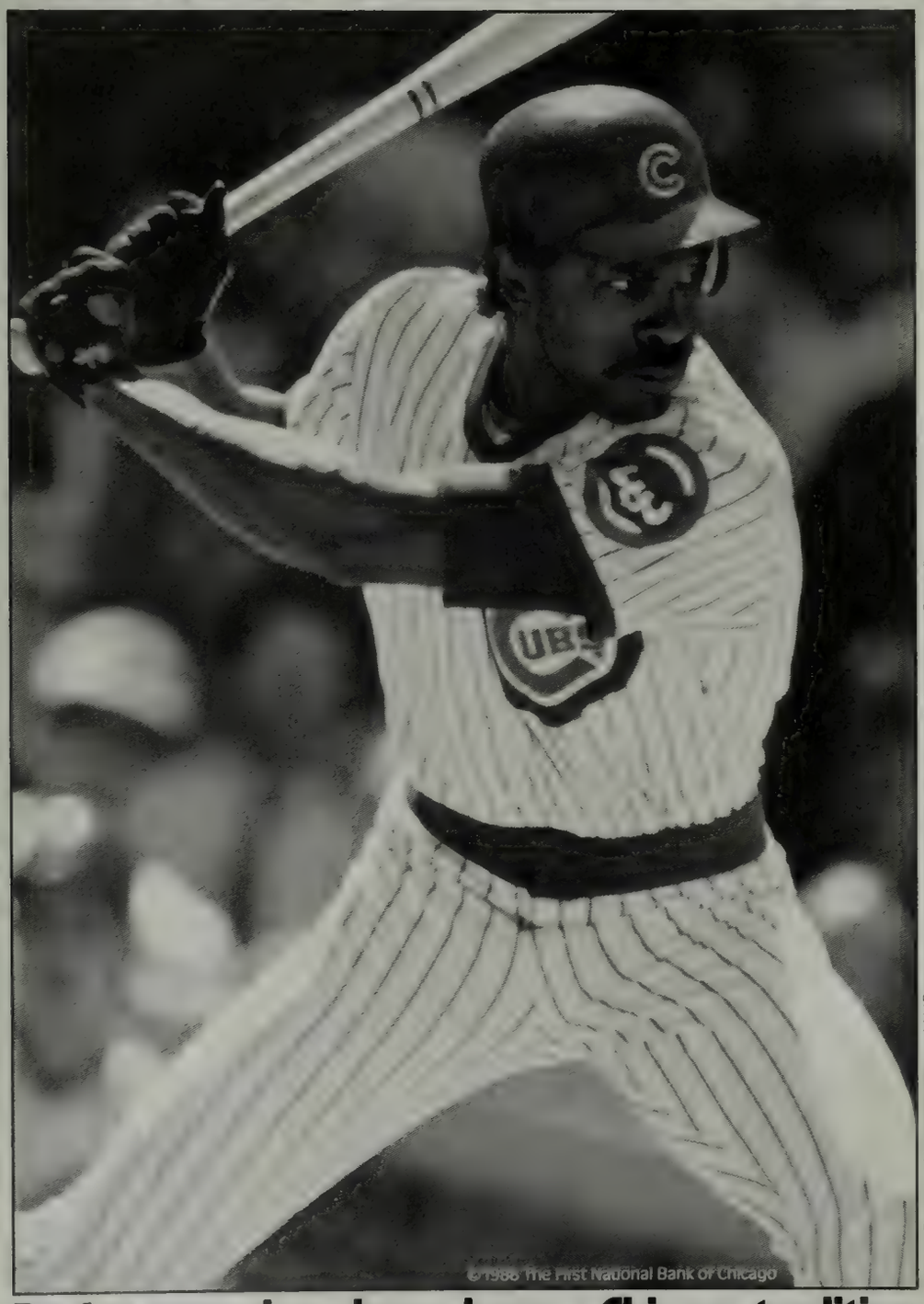

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It's better in St. Louis

By sticking to what it knows best—basic brokering—A.G. Edwards has outperformed top regional brokers and big wire houses as well through good times and bad.

NET PROFIT MARGINS*

	1987	1986	1985	1984	1983	1982
AG Edwards†	8.6%	10.2%	8.5%	6.9%	11.4%	10.8%
Legg Mason	4.1	7.6	6.7	4.2	8.3	5.8
Raymond James	4.4	5.2	5.9	3.1	6.7	4.6
Merrill Lynch	3.6	4.7	3.2	1.6	4.1	6.1
Paine Webber	3.0	3.1	2.1	.6	4.6	4.8
Shearson	1.8	7.3	6.4	4.7	9.6	9.5
Industry average	1.3%	5.5%	5.5%	3.0%	6.8%	7.2%

NET RETURN ON AVERAGE EQUITY‡

	1987	1986	1985	1984	1983	1982
AG Edwards†	18.4%	22.4%	16.3%	11.3%	26.1%	25.3%
Legg Mason	10.6	18.0	15.9	8.7	26.0	26.5
Raymond James	13.3	16.2	17.0	7.3	24.7	25.3
Merrill Lynch	12.6	17.4	10.2	4.8	13.9	23.8
Paine Webber	8.1	11.9	9.3	3.1	25.5	32.2
Shearson	5.8	22.9	17.7	12.1	27.6	27.0
Industry average	2.9%	14.4%	14.4%	7.7%	19.5%	21.5%

*Net income as a percent of total revenues. †Edwards data for the 12 months ended November. ‡Net income divided by average shareholders' equity. *Source: Lipper Analytical Services*

fiscal year ended last February were $36 million on revenues of $504.5 million, compared with $53.7 million on $526 million the previous year.

But there isn't the gloom here that infects most brokerage houses these days. We last visited Edwards nearly four years ago (FORBES, *Sept. 24, 1984*) in a period much like this one, when the individual investor was not answering the telephone. Now as then, Edwards thinks a good part of the problem is shell-shocked brokers who are afraid to make phone calls. "Half of my salesmen have been in the business less than five years and never saw a crash before," he notes.

As we talk, workmen are banging and pounding next door, building a 15-story headquarters addition. Edwards' costs: about $63 a square foot, compared with as much as $300 a square foot in New York. Edwards is convinced he isn't missing much in St. Louis, except maybe the preening and one-upmanship at Harry's, the Wall Street watering hole, that seems to propel a lot of New York firms into the latest financial fads.

"Our offices are profitable with an average broker production of $125,000 to $150,000," he says. "Some of the bigger firms can't break even with average production of over $200,000."

Moreover, by sticking to basic brokerage, Edwards has become a valuable outlet for big mutual fund operators like Fidelity and Putnam. A.G. Edwards, almost by default, has become an important distribution arm for the inventors of the funds. That oftentimes gives Edwards the clout to get product that is tailor-made to its own customers' demands.

Likewise, because of its powerful distribution system, the firm has become a so-called "major bracket" underwriting firm, which means it can frequently wind up with a large portion of some of the best Wall Street deals. "I thought it would take years for us to become a major bracket firm," says Edwards. Edwards' retail network has become increasingly valuable to major underwriters like Morgan Stanley, who themselves have little or no sales force.

Pessimistic? Ben Edwards isn't. Consider these figures: The number of Americans 45 to 65 years old—the prime investing years—will grow by 7 million, to 52.3 million, in the next ten years. Those 65 and over will increase by 4.7 million, to 33.9 million. That will be 86.2 million people representing the bulk of Americans who invest.

"You run a tight ship and wait, and investors will be back," Edwards says calmly. "There's all that money out there that has to be invested." ■

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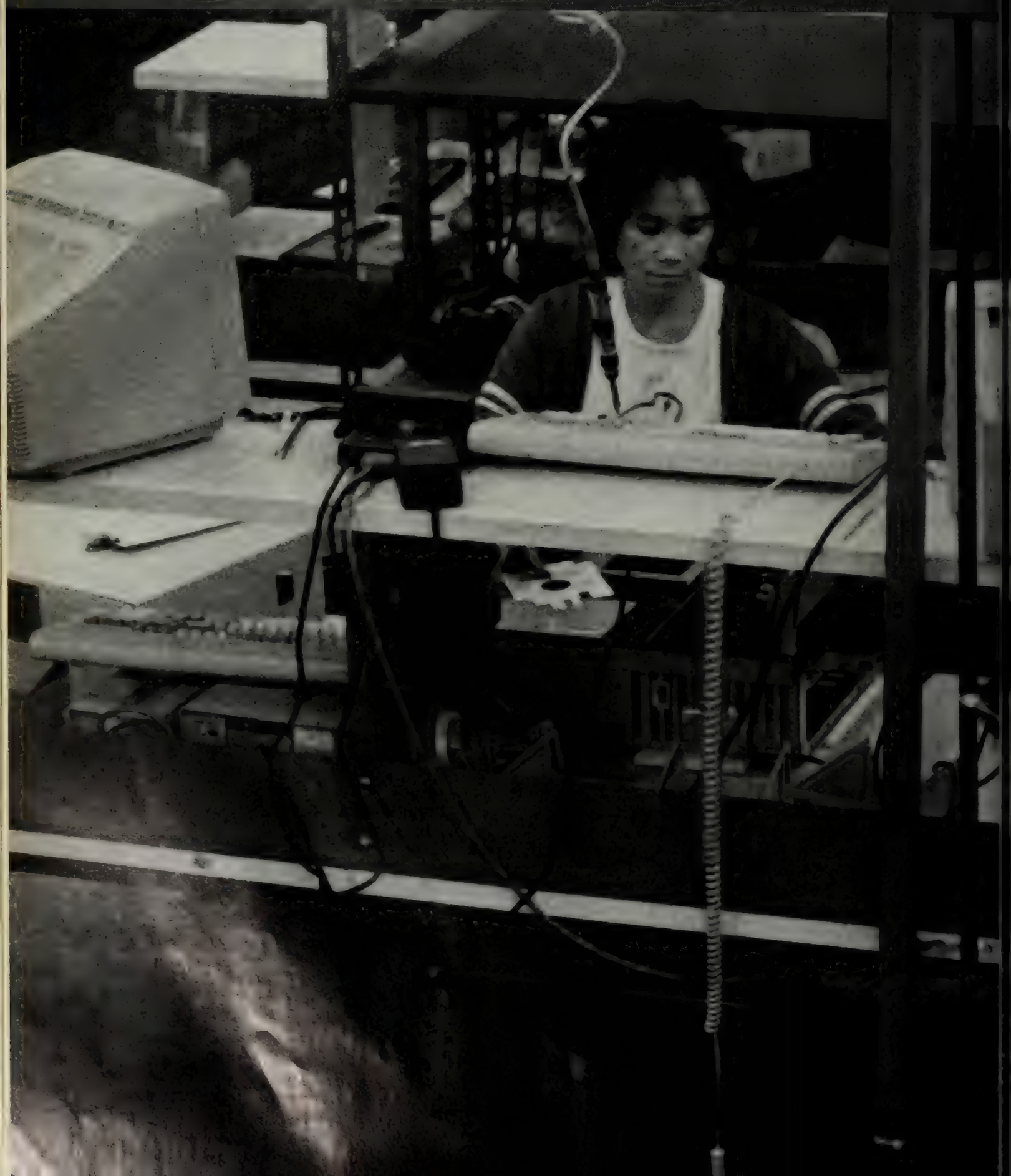

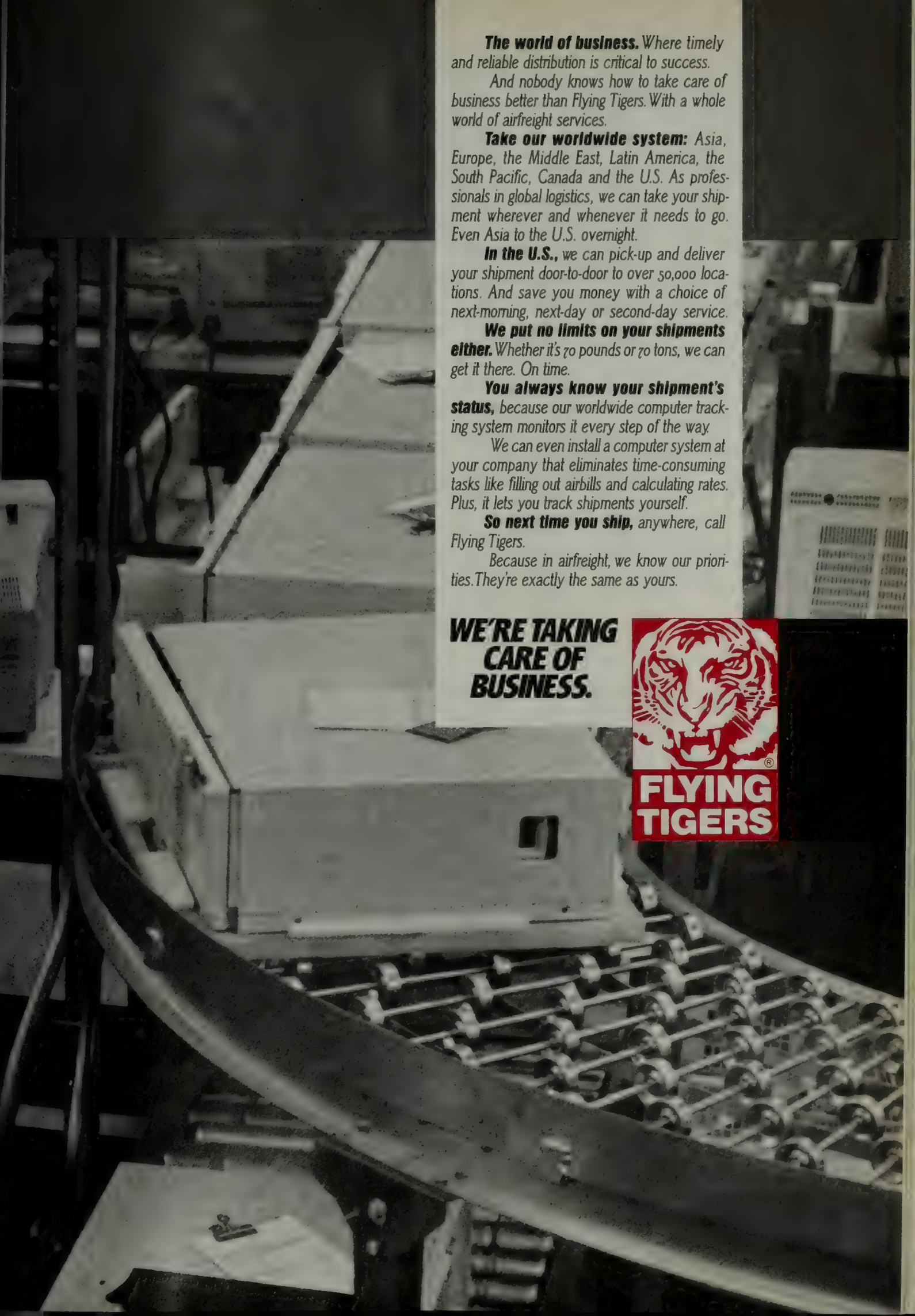
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FLYING TIGERS

Thanks to the Caribbean Basin Initiative, that tormented area is beginning to integrate itself into the U.S. manufacturing economy in a far bigger way.

Who made your underwear?

By Edwin A. Finn Jr.

DESPITE CONTINUING political unrest and economic instability, private enterprise is far from dead in the Caribbean. One certain sign of life: Spurred by Ronald Reagan's five-year-old Caribbean Basin Initiative, the Caribbean is fast becoming a major American garment district, with apparel factories popping up like palm trees.

In the past four years, Caribbean apparel exports to the U.S. have more than quadrupled, to nearly $1 billion, creating upwards of 100,000 jobs in such underdeveloped countries as the Dominican Republic, Haiti and Jamaica. Exports are expected to double again by 1992.

Another sign of life: Electronics companies from South Korea, Singapore, Taiwan and Hong Kong—all faced with impending trade restrictions from Washington—are also beginning to scout for factory sites in the Caribbean.

"What everybody wants is access to the U.S. market, and under the Caribbean Basin Initiative, these countries have it," explains Thomas Travis, partner in Miami-based Sandler, Travis & Rosenberg, a law firm that has advised hundreds of companies on setting up factories in the Caribbean. "This thing is growing geometrically from year to year."

Some American manufacturers have long experience in the area. Warnaco, for example, has been making men's shirts and other apparel in Puerto Rico for decades. But there is no precedent for the present bustle. The list of companies that are now expanding operations in the Caribbean includes Haggar, Farah, Levi Strauss, Hanes and Jockey. Meanwhile, a host of garments such as Christian Dior underwear and Ocean Pacific shorts are made in the Caribbean by subcontractors. Even Asian clothing makers are building Caribbean plants. Preferred locations? So far, the Dominican Republic, Jamaica, Haiti and Costa Rica, followed by Honduras and Guatemala.

The Caribbean Basin Initiative is a package of investment-stimulating changes in U.S. tariff regulations put in place by Reagan in 1983. Previous Caribbean development schemes—like Puerto Rico's Operation Bootstrap 35 years ago—mainly fell into the import-substitution school of development, championed by economist Raul Prebisch. His theory holds that poor countries must build their own industries to reduce imports from rich countries, a misguided approach that winds up encouraging worldwide overcapacity in basic commodities like steel, petrochemicals and semiconductors.

By contrast, the Caribbean Basin Initiative aims to make the region an integral part of the U.S. economy, rather than a weakling competitor. The Caribbean countries get to exploit their comparative advantages: cheap labor and proximity to the U.S. market. Much as Mexico's *maquilladora*, or border, plants help the U.S. electronics industry (FORBES, *Mar. 23, 1987*), Caribbean plants generally perform "final assembly" stitching work of precut pieces supplied from elsewhere. The final product ends up on clothing racks in the States.

Although the garment

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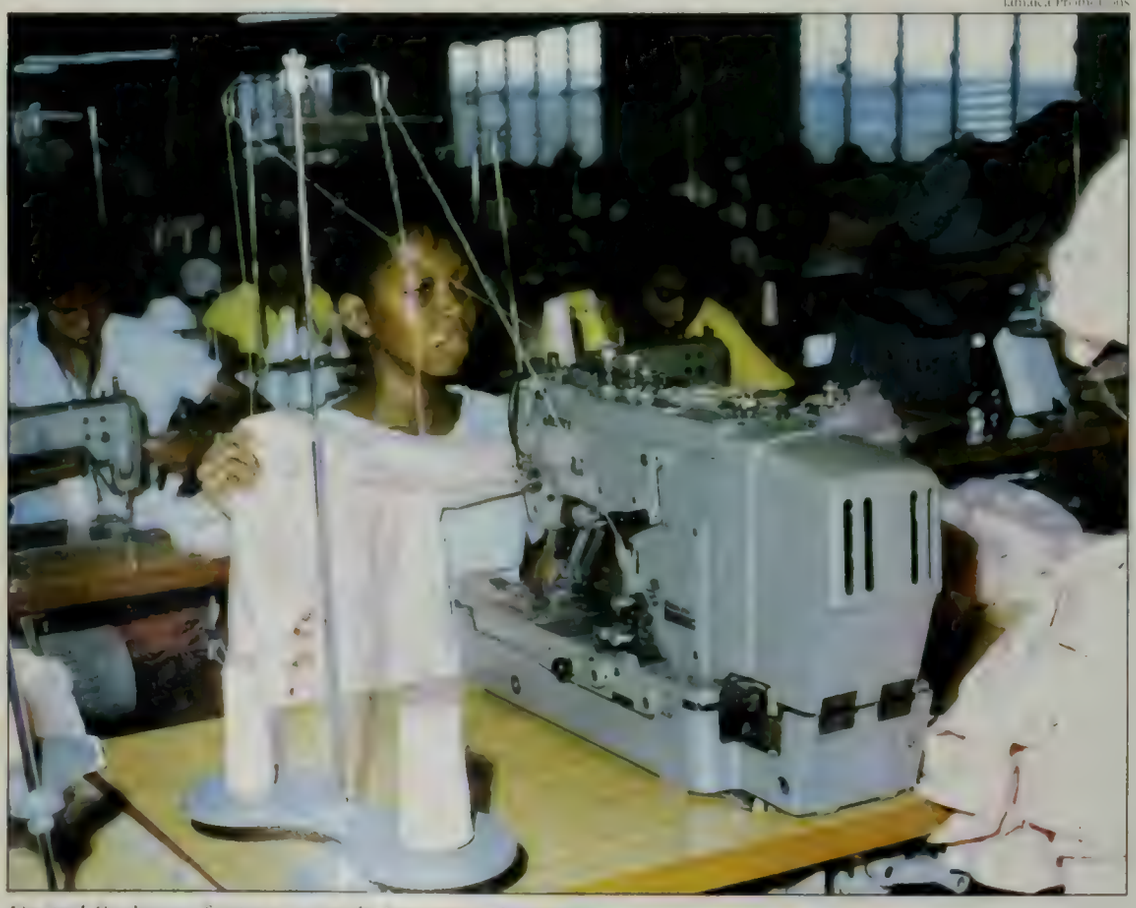

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trade got an initial kick from the Caribbean Basin Initiative, it has been particularly stimulated by a Reagan-backed 1986 amendment to long-standing trade import rules. Under the amendment, Caribbean companies that use U.S.-made material can now export their finished garments back to the States at substantially reduced duties and virtually without limit. This contrasts to the Asian textile trade, where garmentmakers in Hong Kong, Taiwan, and Singapore are bumping up against annual quota limits on their U.S. exports.

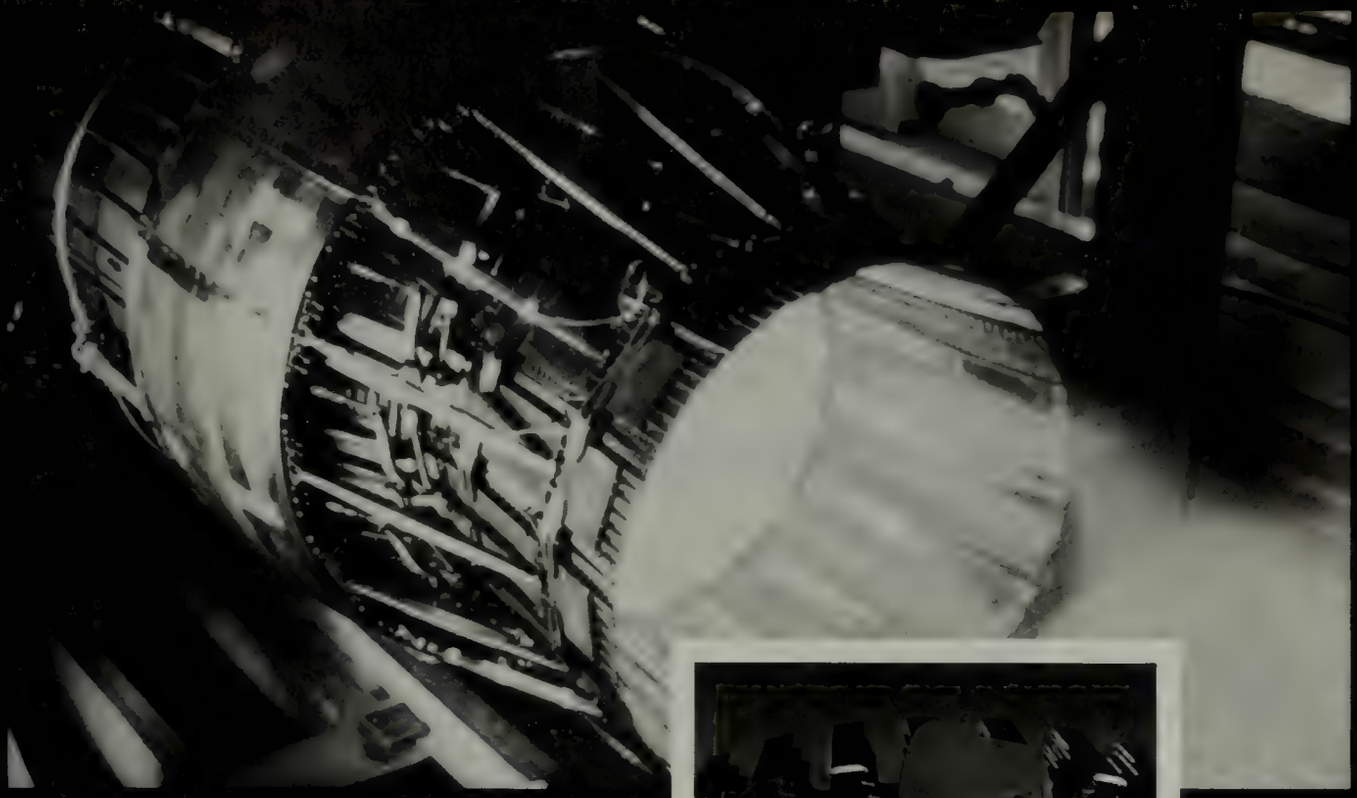
Meanwhile, textile manufacturers and garmentmakers from nearly every state in the union are setting up stitching operations in the Caribbean, or subcontracting. Overall, the new rules have saved or created thousands of U.S. jobs for those workers who

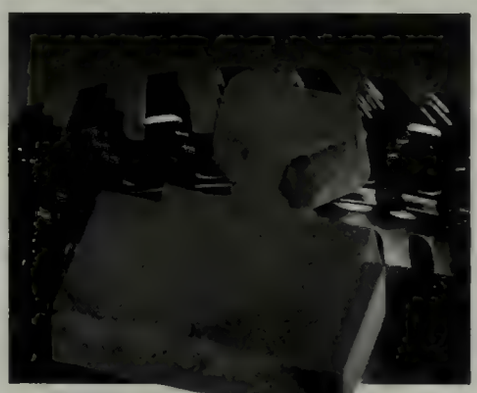
Though it often takes a generation for a country's skill base to advance from garment work to electronics, circumstances are working in the Caribbean's favor. Because of changes in U.S. trade rules, Asian electronics companies need new plant sites.

make and precut fabric to be shipped to the Caribbean plants. U.S. manufacturers' enthusiasm continues in the face of difficulties finding top-flight local managers and coping with government red tape in the region.

With the Initiative working for textiles, can electronics be far behind? "The apparel operations have demonstrated a great amount of success in the time they've been in place," says William Courtney, vice president of operations for Denver garmentmaker Bayly Corp., "and there is no reason why electronics can't be assembled in the Caribbean, too."

Though it often takes a generation for a country's skill base to advance from garment work to electronics, other circumstances are working in the region's favor. Westinghouse, which has operated a manufacturing plant in the Dominican Republic for two years now, plans to open more facilities there later this year. Meanwhile, as of next January, Hong Kong, Singapore, South Korea and Taiwan will lose their right to export electronics goods duty-free into the U.S. Little wonder then that delegations from a number of Asian microelectronics firms are already scouting the Caribbean for assembly plant sites. ■





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International Technology Corp. was a "sure thing," a leader in the booming toxics disposal business. Sure things rarely are.

Warning—hazardous management

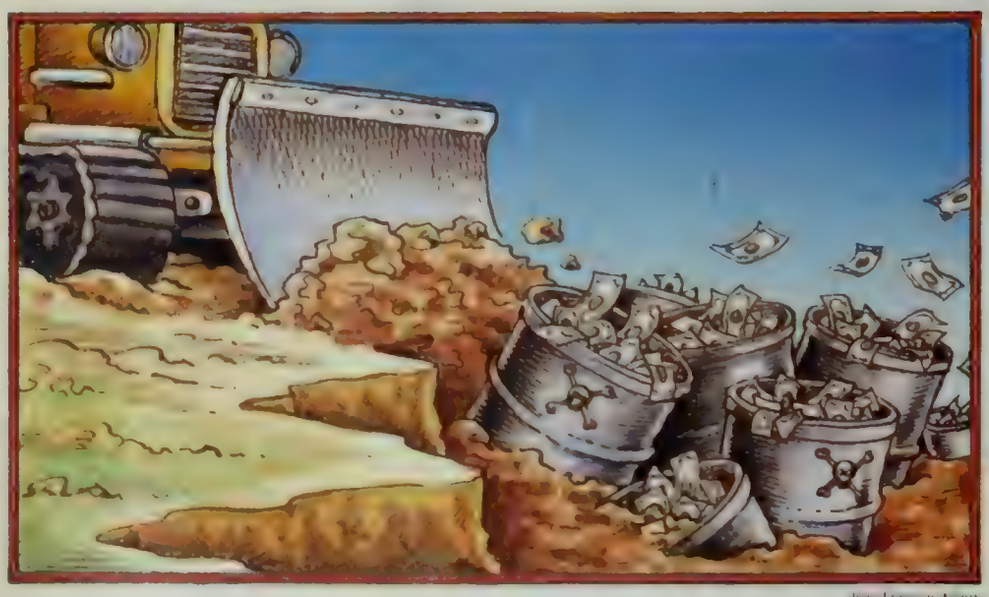
By John Heins

THE FUTURE couldn't have looked brighter for International Technology Corp. two years ago. ITC was the top independent firm in the rapidly growing toxic waste disposal industry, and its profits were doubling every year. Bowled over, *Money* magazine named ITC as one of the "high-growth companies [that] should be industry leaders for the next 15 years."

Wrong. Today Torrance, Calif.-based International Technology is fighting to survive. On sales of $209 million for the year ended Mar. 31, it lost $113 million, including a writeoff of its once most-profitable business. It faces potentially huge liability at closed disposal sites in California. The stock, as high as 27 in 1986, now trades around 3.

Just as remarkable, the company has collapsed while the business it is in prospers. U.S. manufacturers generate some 250 million tons of toxic waste each year, which the government demands they clean up. Public money for cleanups is plentiful. The $2.6 billion commercial toxic waste disposal industry should keep growing at least 25% to 30% annually.

So what went wrong with International Technology? William Hutchison had built a nice little business, founded in 1926, refitting oceangoing ships and cleaning up oil spills. He retired in 1975 and handed the reins to son Murray Hutchison, 49. The new chairman decided International Technology should be a full-service waste management firm, providing consulting and analysis, on-site remediation, transportation and disposal. In fiscal 1986 and 1987 alone, he bought 12 smaller waste-industry firms throughout the U.S.



But buying companies proved easier than running them. ITC's operating expenses rose much faster than sales, and added debt doubled interest costs between 1986 and 1987. At the same time, margins in the "clean" side of the business—analysis and consulting—were cut as competitors flooded the market. A proposed Louisiana landfill and treatment facility, mired in regulatory hassles, cost $19 million but earned no revenue.

International also ran into problems with regulators. The California Department of Health Services in December 1986 shut down the company's largest landfill—the Panoche site north of San Francisco—as a result of fears over the mixing of incompatible wastes at the site. The closing took away a major profit source, and ITC was charged $3.2 million for violations at the site. Then the company was censured by the Environmental Protection Agency for violations at its Baker/Vine Hill and Imperial sites in California. Baker/Vine Hill and Panoche remain closed because of regulatory decree and other problems.

In December, without warning, Hutchison announced he was dumping International Technology's landfill business—26% of sales—and taking a $110 million aftertax writeoff. The focus now will be consulting and analysis, on-site treatment, and disposal using mobile incineration units. The stock, stuck around 7 at the time, quickly fell 35%.

The remaining business has potential, but the question is whether International Technology has enough capital left to exploit those opportunities. Cash flow from continuing operations is negative, and its access to affordable credit is sharply limited. All of which is giving some customers the willies. Paul Means, head of Arkansas' Department of Pollution Control & Ecology, in October tentatively chose ITC for a $12 million cleanup in the state. "We're going to have to take a serious look at their current financial condition first," he says.

When he looks, he will also see some potentially frightening liabilities. The company is almost certainly underestimating the cost of closing the five California disposal sites it can't sell. Insurance? Don't ask. International has been essentially self-insuring, and its current coverage doesn't even meet state minimums.

Then there is the shareholder suit. The company through Dean Witter Capital Markets and Smith Barney, Harris Upham, raised $48 million last September in a secondary offering at $13.50 a share. A class-action suit filed in U.S. district court in Los Angeles accuses ITC of "materially overstating" assets and net earnings in the company's offering prospectus. Since the unexpected $110 million asset writedown came only 11 weeks after the offering, Hutchison, who owns 8% of the stock, has some explaining to do. ■

THE FINE ART OF FLYING

by Kolar.

«Je suis la Beauté - Paris». When we asked the Czechoslovakian artist, Kolar, to interpret The Fine Art of Flying he responded with his famous, multi-image rollage technique. "Paris", he reflected, "is a love affair with a fascinating woman - she will open many worlds to you and yet always draw you back". Air France leaves Paris for the world more than 150 times every day. And every flight is a love affair.

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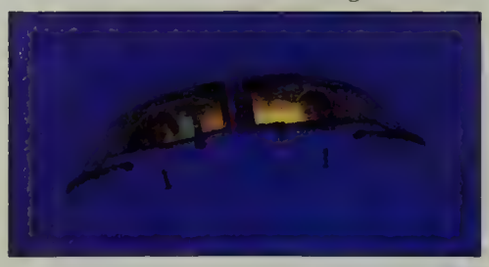

THE FINE ART OF FLYING

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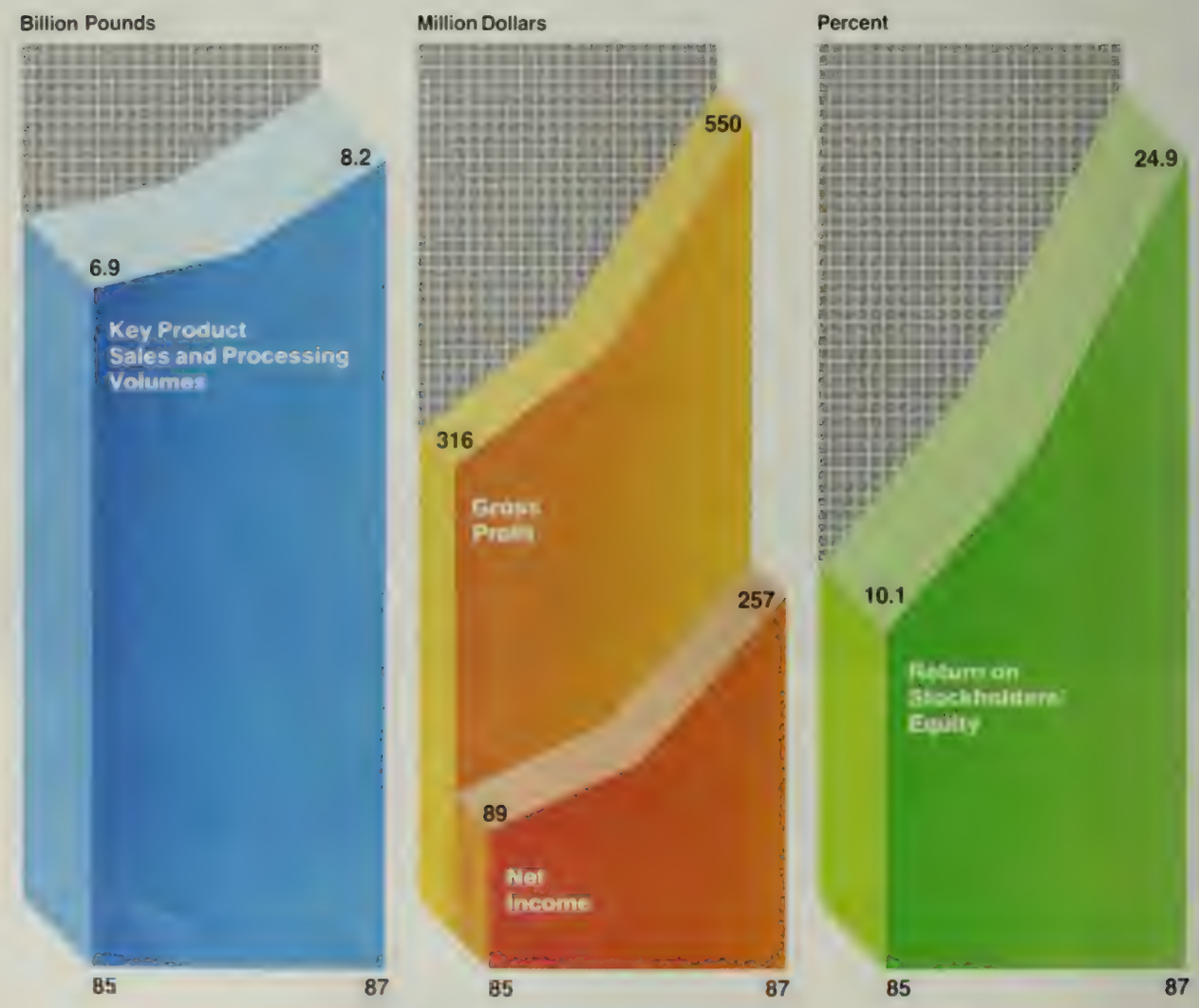

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ARCO Chemical Company

Having messed up what looked to be a fine acquisition, AM International had to sell at a loss. So why is Wall Street cheering?

The mess behind the numbers

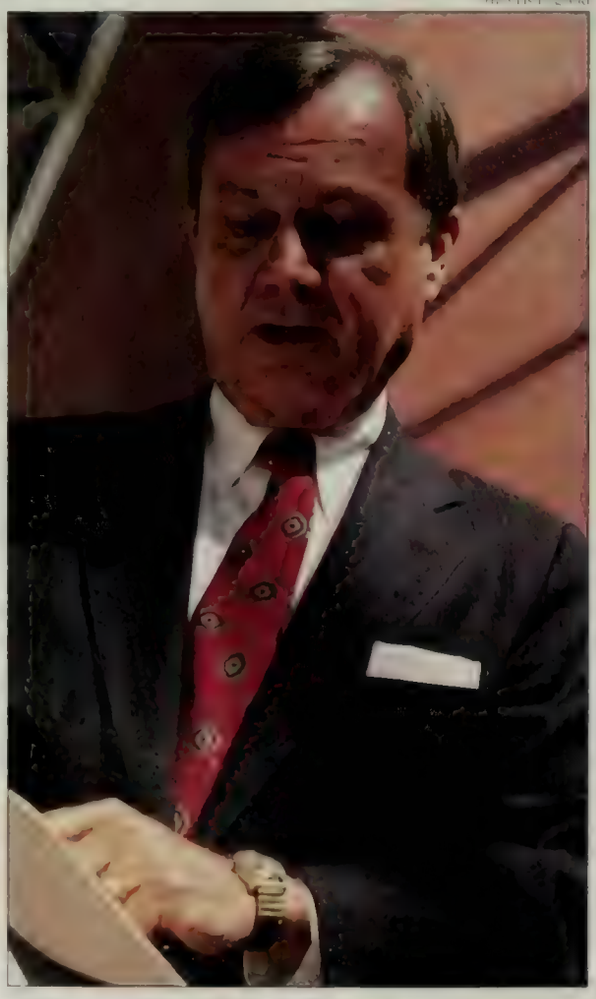
By Alyssa A. Lappen

FOUR YEARS AGO it was in Chapter 11. Yet suddenly AM International is a hot stock, leaping nearly 30% in three days, to 5⅛, on heavy volume—all on the news that the company has struck a tentative deal to sell its business of manufacturing web offset presses to a major competitor, Japan's Komori Printing Machinery Co. Why the price rise? Chicago-based AM International expects to get $181 million in cash from Komori, which will also assume $52 million in AM debt and give back a block of AM stock that Komori bought last year. Add it all up and the deal looks to be worth $250 million—about equal to AM's stock market value. A company that had been in Chapter 11 only a few years ago now looks like an investor's bargain. So the stock rose. And the analysts cheered.

Instead of cheering, they should have been jeering. Far from striking a good deal, AM Chairman and Chief Executive Merle Banta, 55, has taken a bath. He overpaid to get into the web offset business in 1986, then bailed out two years later at a loss conservatively estimated at $40 million.

Who's Banta? After an undistinguished career as head of a smallish, lackluster consumer products company in the 1970s, he took over the top job at AM in 1984 just as the troubled graphics giant (fiscal 1987 sales, $1.2 billion) was ready to emerge from Chapter 11. In part, his recovery strategy was built on expanding AM's activities in the manufacture of reproduction and graphics equipment. Toward that end he paid $246 million in cash in 1986, plus the assumption or refinancing of $152 million in debt, to acquire Harris Graphics Corp., the nation's leading manufacturer of web offset presses.

At the time Banta bought it, Harris was in a cyclical downturn but was viewed as both healthy and generally profitable, with excellent long-term prospects. A bit over 60% of its earnings came from web press manufacturing, the rest from the production of binding, collating and business forms equipment. Yet no sooner had AM acquired the company than Banta embarked on a cost-cutting and reorganization drive that one former top Harris official bemoans as "the most ill-conceived one I have ever seen in American business."



AM International's Merle Banta
Like Mary Kay taking over Boeing.

In an effort to save up to $55 million annually in operating costs, Banta let go nearly all of Harris' top corporate managers along with hundreds of white-collar workers, and consolidated four web press divisions and other plants into one unit and moved its headquarters to Dover, N.H. Soon the company had to replace some of the people it had fired and bring in outside consultants to straighten out the mess Banta made. AM absorbed $50 million in "reorganization costs."

Banta also mishandled Harris' unfinished, $45 million advanced-machining center in Fort Worth, Tex. Harris had begun reequipping the plant in 1985 as a way to lower the cost and improve the quality of its web press components to stay ahead of foreign rivals. But Banta, believing the unfinished facility was "impractical," started whacking away at costs here, too, and forced out key people. His heavy-handed methods caused engineering bottlenecks, so now deliveries of new presses are months behind schedule. Says a former executive, "It's like Mary Kay took over Boeing and tried to run it."

Banta himself defends his foray into web offset printing, claiming he came out ahead on the deal. Says he, "If we knew then what we know now, we'd still have done it the same way."

Here's the bottom line: Adding up cash outlays, assumption of debt and restructuring charges, AM poured some $290 million into the purchase and reorganization of the web offset operation. The Komori deal would bring in $250 million, producing an effective loss of about $40 million.

With the web offset mess behind it, analyst John Rossi of Alex. Brown & Sons estimates that AM in fiscal 1989 will show net income, before tax-loss credits, of somewhere around $28 million, on revenues of about $725 million. But what a price to pay. Along the way a respected and thriving printing manufacturer has been ravaged and the Japanese have stepped in to pick up the pieces. ■

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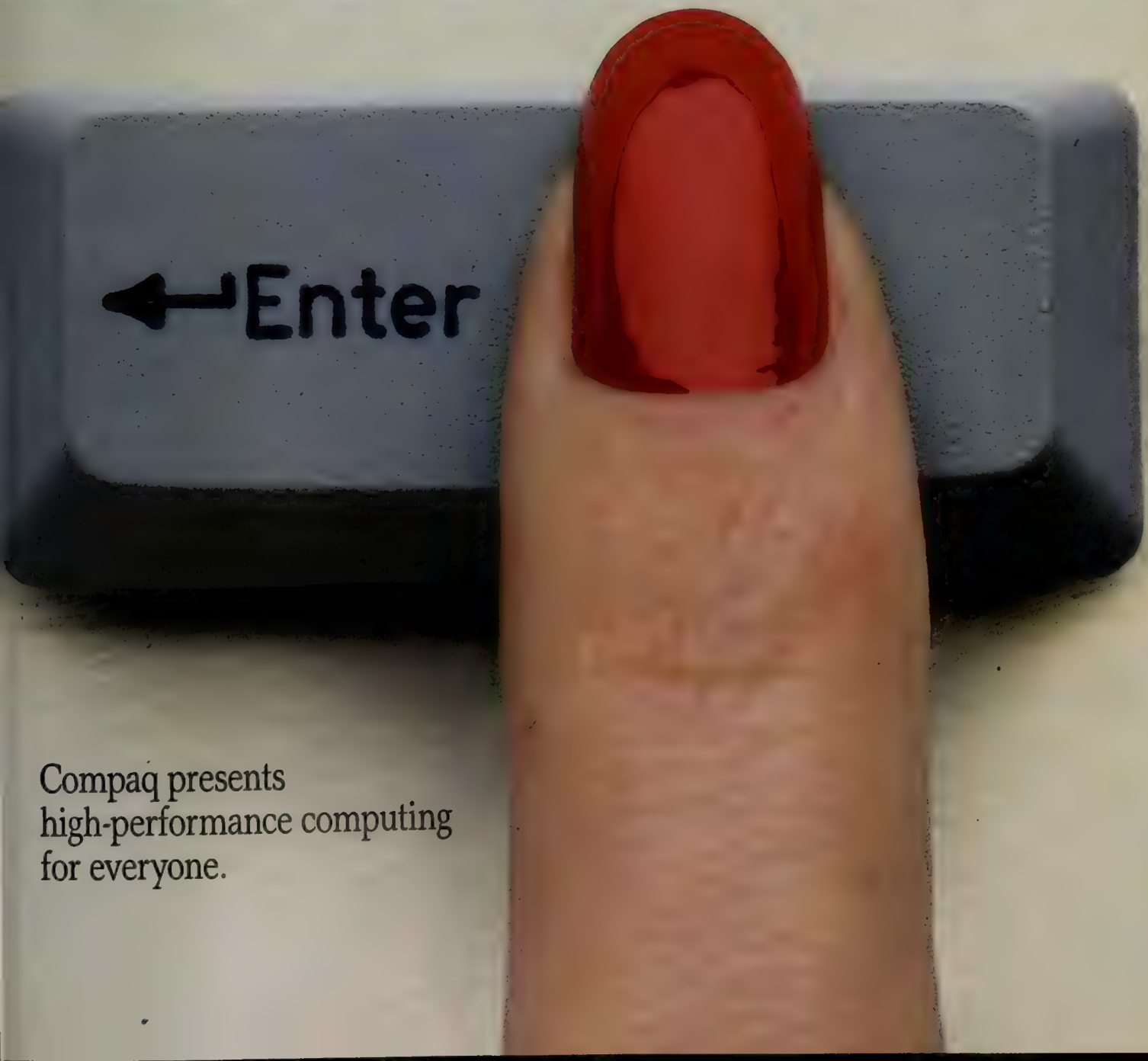

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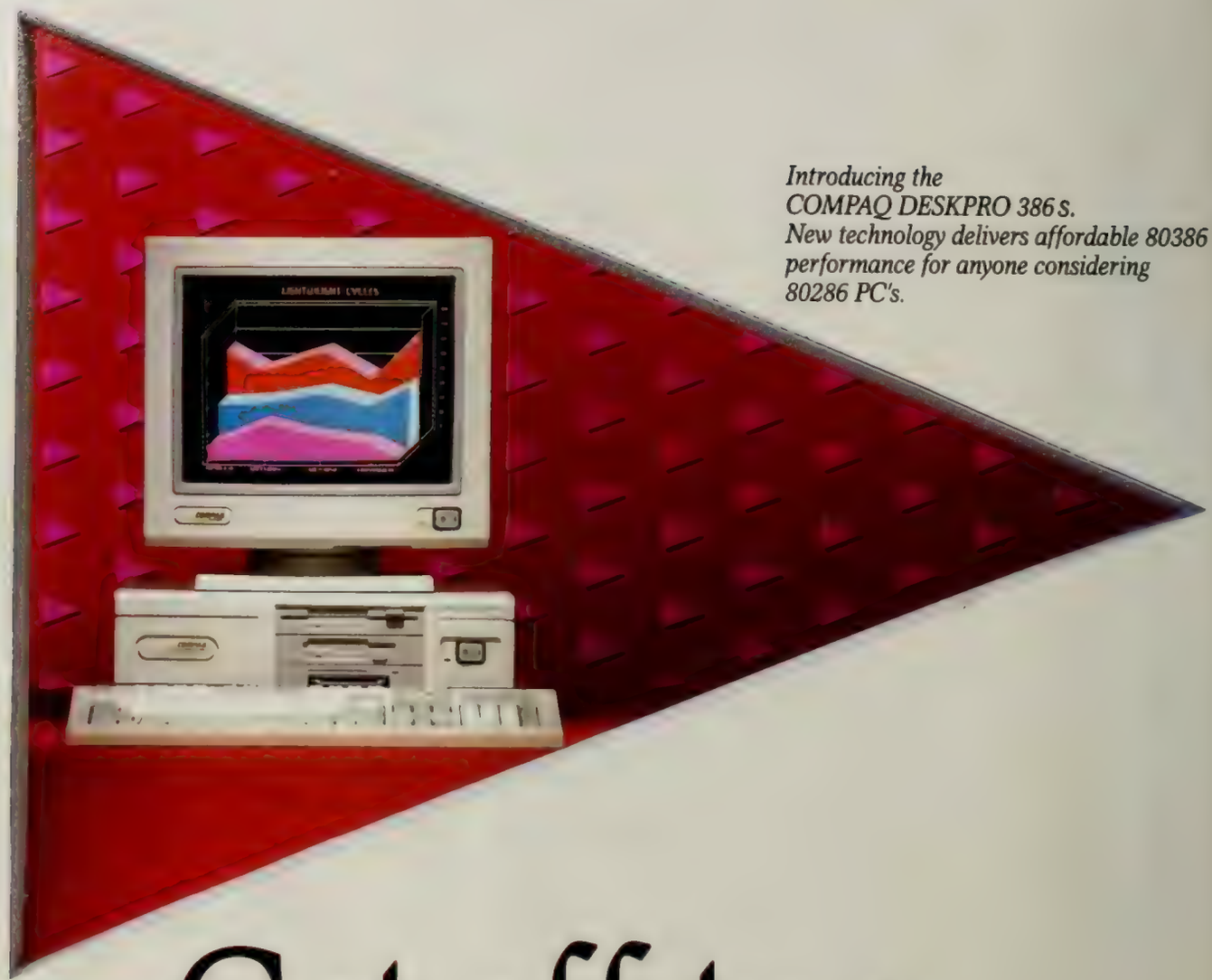

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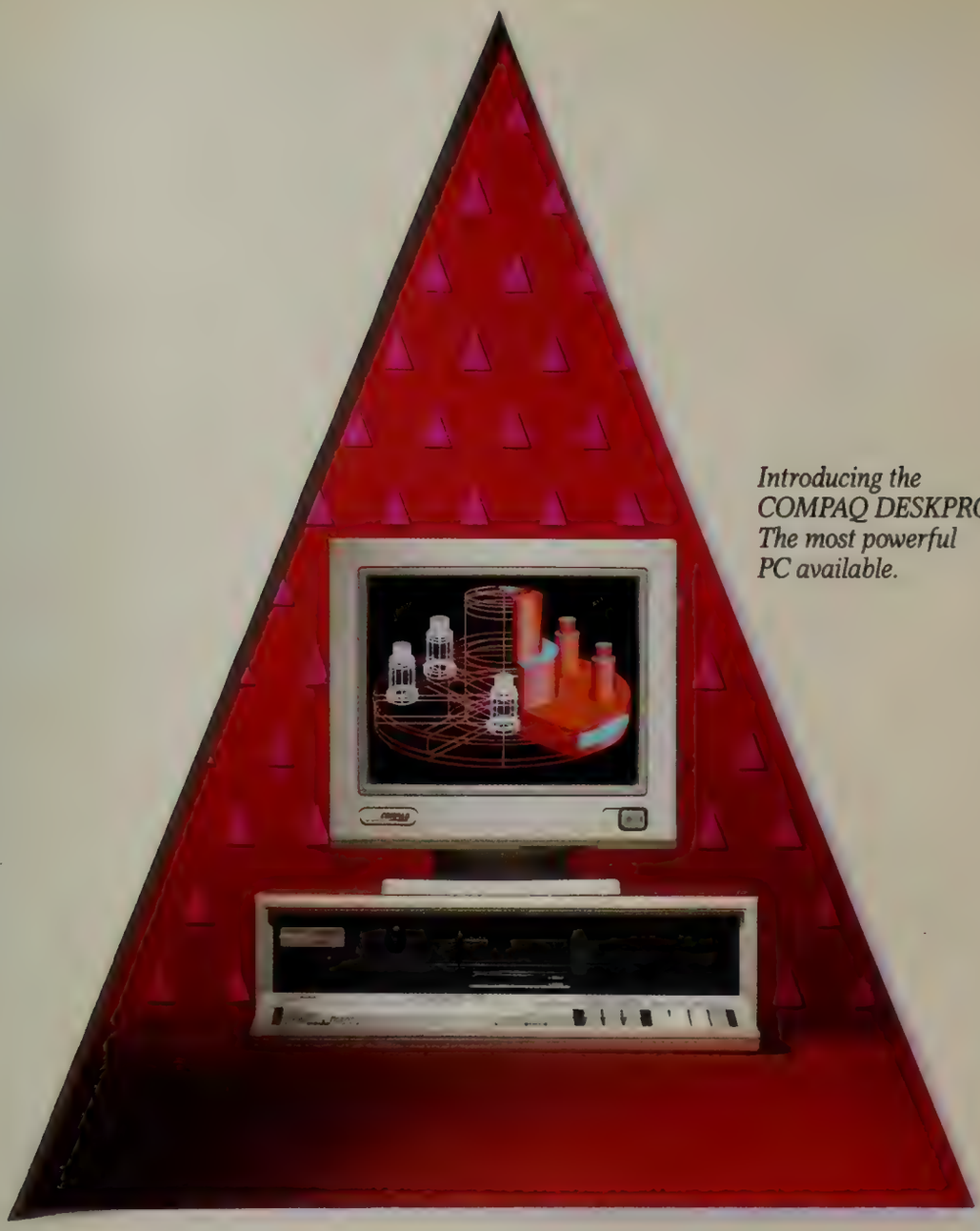

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It simply works better.

Austin Furst Jr. lucked his way into the entertainment business. He's still having some luck, but not much is rubbing off on his fellow shareholders.

Where's the payoff?

By Lisa Gubernick

AUSTIN FURST JR., founder and chairman of Vestron Inc., has had a wild ride in the entertainment business. At the moment he is still coasting on the amazing popularity of *Dirty Dancing*, an unlikely hit movie about a couple of kids who fall in love in the Catskills. Vestron produced it for less than $6 million. To date, worldwide box office revenues are $175 million. There have also been two hit sound-track albums; a live show is touring the country; and a television series will air this fall.

Dirty Dancing broke about the same time that Vestron was reaping the rewards of another of its show business happy endings. In January of this year it won a settlement just short of $16 million in a lawsuit over video rights for the Academy Award-winning hit movie *Platoon*.

You could say that Vestron's Austin Furst is one lucky man. He worked at Time Inc. for ten years, moving from magazines to HBO to Time-Life's film operations. When he left in 1981, he got at a bargain price the videocassette rights to the 200-film Time-Life library (including 40 feature films such as *Good Guys Wear Black* and *Fort Apache, The Bronx*). From this tiny beginning, by 1984 Furst was taking in more than $100 million in revenues from the video library and had put together the *Platoon* deal, which, though now canceled, gave Vestron that handsome settlement.

But not all Furst's luck has been good. By the time the company managed to go public in 1985, the videocassette market was beginning to sag. In 1987 Vestron, by then the nation's largest independent producer and distributor of videocassettes, lost over $32.7 million (87 cents a share) on revenues of $217 million.

What went wrong? Success. Movie producers like New World and Orion had become aware of the increasing value of videocassette rights and decided to get into the distribution business themselves. Prices rocketed. Vestron, like many others, began paying too much for unproven products—including a reported $5 million for the Madonna and Sean Penn disaster, *Shanghai Surprise*.

But, simultaneously, the revenues from video were flattening as the public got pickier about what it was buying. Its appetite for B-grade movies such as *Bloodsucking Freaks* and *Campus Corpse*, which comprised much of Vestron's library, was sated.

Furst's solution: Since he could no longer buy product at a reasonable price, he would manufacture it himself. "I always intended to build a distribution company, but I didn't realize that I would also have to build a production company to feed it," admits the 44-year-old executive, who still controls 85% of his company's shares. Clad in a rumpled cardigan and chinos and based in suburban Stamford, Conn., he appears an unlikely mogul. No matter. He has plunged into moviemaking with a vengeance, with a $125 million production budget, and more than 30 releases planned over the next year.

Will his good luck hold? Furst says he is trying to avoid expensive mistakes by budgeting movies at a maximum of $6 million. Moreover, he has managed to offload roughly 25% of production costs onto outside investors through limited partnerships.

But it takes more than one hit and tight budgets to make it in filmmaking. In recent Hollywood history, only one major new movie company, Orion, has really thrived. There is little evidence that Vestron will be the second. Certainly its other releases have been disappointing. The film that it had the highest hopes for, *The Unholy*, starring Ben Cross, released in April, did $6 million at the box office. One recent release, *Call Me*, about an obscene phone caller, lost half its screens in its first three weeks and is now out of circulation.

These days Vestron is virtually a one-product success story; Furst needs another *Dirty Dancing*. As Joel Reader, an investment banker with L.F. Rothschild, points out, "Unlike the major studios, which can fall back on real estate, tours, libraries or television, Vestron has no ready source of cash flow. There's no margin for error." Although earnings for the first quarter of 1988 came in at 35 cents a share (up from a 5-cent loss the year before) on revenues of $79 million, the profits were almost entirely from *Dirty Dancing* and the *Platoon* settlement. Meanwhile, in the first quarter, sales and general and administrative expenses rose 70%—an increase due largely to Vestron's movie division.

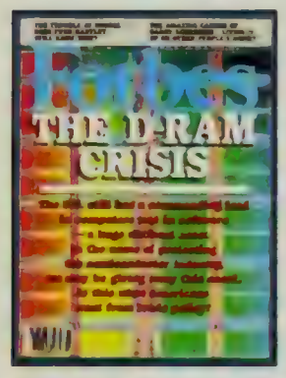
As for Austin Furst's fabled good luck, his shareholders have seen little of it themselves. Vestron went public at 13 in 1985 and now sells at 5⅜. ■

Brad Trent/Dirty Pictures

Vestron Inc.'s founder and chairman, Austin Furst Jr.
Trying to avoid expensive mistakes.

Two semiconductor leaders take issue with FORBES' contention that unrestrained competition is good for their industry. And George Gilder defends his thesis.

Who caused the D-RAM crisis?



Not surprisingly, George Gilder's "The D-RAM Crisis: How the computer companies lost their memories" (FORBES, *June 13*) has stirred strong feelings in the computer industry. Taking sharp issue with our criticism of the U.S.-Japanese antidumping pact were two semiconductor pioneers, Robert Noyce, cofounder and vice chairman of Intel Corp., and W.J. (Jerry) Sanders III, founder and chairman of Advanced Micro Devices. Because the debate over the industry's future is so important, we run Noyce's and Sanders' thoughtful letters in their entirety, below. Gilder's reply follows.

SIR:
Although I generally agree with George Gilder, this time he has missed the mark. His essay in the June 13 issue distorts the story on D-RAM computer memory chips. The current D-RAM [dynamic random-access memory] shortage exists not because Japanese dumping was stopped, but because it was not stopped soon enough.

Japanese dumping during 1985-86 forced five of America's D-RAM manufacturers out of the business after losing $2 billion. This reduced global production by 20% just as the latest computer boom began. Dumping also caused serious damage to Japanese suppliers. As a result of their $4 billion in losses, Japanese D-RAM producers have only invested one-half as much in new 1-megabit D-RAM factories as they did in 256K D-RAM plants.

The 1986 Semiconductor Trade Agreement was designed, in part, to stop dumping. It seeks to do so through cost-based pricing—which allows individual firms' prices to vary according to their own competitiveness—rather than production controls or "floor prices" administered by MITI [the Japanese Ministry of International Trade & Industry]. This approach has been supported by the recently successful GATT case brought by Europeans against MITI's supply restrictions.

Although the agreement has ended dumping, the effects of the dumping are still being felt. For example, according to a recent Dataquest *DQ Monday* report, 1-megabit D-RAM prices are now running about one and a half to two times higher in the U.S. than in Japan. This demonstrates a basic point about dumping insufficiently appreciated by Gilder: Destroying cost-based competition is the first step toward the creation of a monopoly that can manipulate supply to serve its own (in this case, national) purposes.

Since dumping has wiped out most of the American competition, it will take some time to reestablish a strong U.S. source of D-RAM supply. Eproms were also covered by the agreement, a point omitted by Mr. Gilder. We do not face an Eprom shortage, however, because the pact was signed in time to prevent dumping from eliminating any U.S. Eprom producers. The message is clear: Dumping only works if a monopoly can be established and early losses can be recovered. The solution is to stop dumping before a monopoly is established.

Robert N. Noyce
Vice Chairman, Intel Corp.
Santa Clara, Calif.

Intel Corp.'s Robert N. Noyce
Too little, too late.

Sir:
I admire George Gilder and his devotion to the free market, but his analysis of the current shortage of certain memory chips is full of misinformation.

For example, he blames the current shortage of D-RAM chips at least in part on the U.S.-Japan agreement on semiconductor trade without offering even the slightest shred of evidence to support his charge. In fact, the trade agreement effectively ended Japanese dumping of another type of memory chip—erasable programmable read-only memories (Eproms)—and assured a competitive market for these vital products. Without the trade agreement, Japanese manufacturers doubtless would have continued to

dump Eproms until they had achieved a dominant position in this product line as well.

Today's D-RAM shortage and exorbitant prices are the direct and predictable result of past dumping of these chips by Japanese semiconductor manufacturers. Selling below cost accomplished exactly what it was intended to do: It drove virtually all U.S. semiconductor manufacturers out of the D-RAM business and enabled the Japanese companies that now produce 90% of the world's supply to reap a fortune from their near-monopolization of this business.

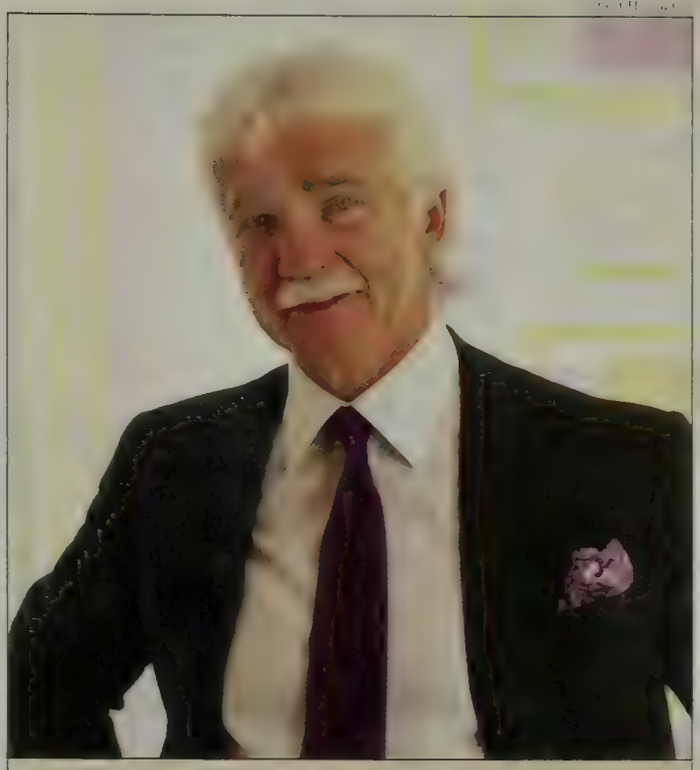
The D-RAM shortage has been exacerbated by an explosion of demand, created in part by artificially low prices, just as production lines are being converted from 256K chips to higher-density 1-megabit devices.

Although the Japanese MITI may have encouraged Japanese manufacturers to limit D-RAM production, the trade agreement did not call for quotas on either production or exports of any chips. Indeed, U.S. semiconductor manufacturers are adamantly opposed to both export and production controls.

In any event, U.S. computer manufacturers could not have expected to buy below-cost chips indefinitely. Certainly the Japanese did not dump chips with the intention of providing subsidies to U.S. computer manufacturers. Changes in the dollar-yen relationship alone would have driven prices upward. Despite these complications, the cost per bit of memory will continue its long-term downward trend.

Japanese trade practices present a perplexing problem to free market advocates. Japan's economy is hardly a free market system. Government and industry routinely collaborate, frequently employing targeting practices, protectionism and government subsidies that distort comparative advantage and normal economic forces. Responding to the challenge of competing effectively with such a trading partner calls for innovative policies that will enhance rather than restrict competition.

W.J. Sanders III
Chairman, Advanced Micro Devices
Sunnyvale, Calif.



Advanced Micro Devices' W.J. (Jerry) Sanders III
"A perplexing problem to free market advocates."

George Gilder replies:
Legendary semiconductor entrepreneurs Robert Noyce and Jerry Sanders blame the D-RAM crisis on tardy and inadequate action against Japanese dumping. Would earlier action by the government have improved the situation? I doubt it. The major producers that withdrew from D-RAM production were AT&T and United Technologies (which had purchased Mostek). They suffered from D-RAM production costs that were well above the Japanese level. To beat the Japanese, you have to out-perform them, not merely out-politic them.

Jerry Sanders seems to believe that prices can be controlled without controlling quantities as well. This, I'm afraid, is almost impossible. Indeed, this was the lesson of the initial collapse of the antidumping price rules when excess chips gushed out into other Asian markets and the U.S. demanded immediate action from the Ministry of International Trade and Industry. MITI resorted to the obvious remedy: a tourniquet on production. As usual when bureaucrats conspire to fix prices and production, their timing was abysmal. Under the new MITI guidance, Japanese output of 256K D-RAMs dropped 32% over a 12-month period, while demand soared.

Both Noyce and Sanders mention continued success by U.S. semiconductor producers in Eprom chips. I think they are unduly modest in ascribing this success to the Semiconductor Trade Agreement. In Eproms, the chief U.S. producers, Intel and AMD, enjoyed dominant market share and were a full generation ahead of the Japanese rather than a near generation behind, as most U.S. D-RAM makers were.

Because most U.S. industries think they suffer from dumping at one time or another, giving in to the chip lobby (again) would overload the U.S. political process, and jeopardize world economic and trade growth, thus limiting future markets for the U.S. chip firms as well. Some believe that this price is worth paying to avoid monopoly pricing of chips by the Japanese. But monopoly pricing of D-RAMS is unlikely to arise in the face of increasing output by Korean and European companies, not to mention other existing and potential U.S. and Japanese suppliers.

The chief problem of U.S. chip firms is not Japan's protectionism but the chip-making prowess of Japan's computer and consumer electronics industries, and IBM's self-sufficiency in chips as well. Through global collaboration and design and process ingenuity, the U.S. has been fighting back and is now more than holding its own in the global market (though an overpriced yen overstates the value of Japanese production and thus disguises U.S. gains).

There is a hidden danger in the semiconductor industry's renewed calls for protection. Constant harping on Japan, a crucial capitalist ally and supplier, will merely encourage the politically ambitious technocrats and academic scribblers in Massachusetts who think they could run Intel and AMD better than entrepreneurs Noyce and Sanders—but who, in power, would make it almost impossible for such companies even to be launched.

As the *New York Times* recently reported, at least one influential Cambridge technocrat thinks Silicon Valley suffers from too many entrepreneurs. His remedy—higher capital gains taxes—is already being tested today, and this thinking has influenced presidential candidate Michael Dukakis, who declared he'd certainly not lower capital gains taxes. In Japan, even MITI understands that U.S. entrepreneurship and venture capital are precious American assets. ■

Let others go on acquisition binges. Right now shrewd old Wallace Carroll would rather hang on to his cash.

Ready for rough weather

By James Cook

ONE DAY IN JANUARY 1933, on the eve of Franklin Roosevelt's first term in the White House, New York Telephone Co. laid off a batch of its accounting work force. "Seventeen of us just walked the plank that particular Friday," Wallace E. Carroll says. He recalls saying at the time: "On the law of averages, some of us are going to do better than if we stayed here, and I'm going to be one of them."

Fifty-five years later Wallace Carroll, of Lake Forest, Ill., now 80, is a centimillionaire and then some. He is the biggest shareholder in two conglomerates and heads his family's extensive real estate interests. Together the Carroll companies generated at least $500 million in sales last year and some $15 million net income.

Carroll's 42% interest in Katy Industries (held mostly through family trusts and foundations) is worth about $75 million, and wholly owned CRL Inc., which is almost the same size, can hardly be worth less. "I just don't know what I'm worth," Carroll says disarmingly, "but I'm surprised myself sometimes."

All this money didn't come easy. A tall, amiable teddy bear of a man, Carroll is the son of a Taunton, Mass. blacksmith. He worked his way through Boston College and a year at the Harvard Business School, and, after that setback at New York Telephone, ended up in Chicago selling gauges for a Providence, R.I. manufacturer. Within a few years he got together $5,000 to start his own gauge manufacturing business in 1941, just as the wartime boom began

Carroll's gauge business was a success, and he went on to acquire a string of companies, small niche manufacturers for the most part, family owned. He constantly shuffled the components of his homemade conglomerate, as times changed and opportunity dictated.

Steve Leonard

Katy Industries' Wallace Carroll
The Depression left scars.

In 1970 Carroll took a giant step forward with the acquisition of Katy Industries, the holding company that controlled the Missouri-Kansas-Texas railroad. What attracted Carroll was not the railroad. That had begun losing money in 1964 and was in a sorry state. "The tracks were so bad," he recalls, "we used to say a locomotive could get derailed simply standing still." Rather, it was Katy's $32 million tax-loss carryforward. Carroll could use that to offset the earnings of the various companies he'd acquired. And so in 1970, in a reverse takeover, Carroll sold Katy an 80% interest in his conglomerate and wound up with 45% of Katy's equity.

The Carroll enterprises have had two faces ever since—a public one in Katy Industries and a private one made up of the odds and ends that—for tax reasons—weren't sold to Katy. Through Katy Industries, the public Carroll made a series of acquisitions. The private Carroll, too, went on making acquisitions. Recently, he bankrolled Florida Express, a regional airline that he sold to the public for $14 million, and that Braniff acquired for $20 million only last year.

But when he was 76, Carroll had to undergo an experience almost as frightening as being laid off during the Depression. In the early 1980s the worst manufacturing recession since the Thirties hit the U.S. economy, and Katy Industries fell apart soon thereafter. Its casualty insurance business lost $45 million and went under. A silverware business was creamed by competition from abroad. A shrimp business that normally produced a third of the company's income barely broke even as the shrimp harvest failed. With $170 million in debt, meanwhile, interest charges were running as high as $18 million a year. Katy lost nearly $60 million in the succeeding three years.

Under pressure from the banks, Carroll began to unload the good along with the bad—whatever would yield the best price. In less than three years he junked, sold or otherwise disposed of 13 companies with total sales of about $250 million. It was a big setback, but Carroll survived—and came back.

The debt is back down to a more manageable $30 million, and last year Katy got solidly back in the black, netting $5 million from continuing operations on $260 million in sales. It now has only 28 companies, down from 41 a few years ago. The company is left with a jumble of businesses in jewelry, sanitation maintenance supplies, shoemaking and die-cutting machinery, and pumps for the chemical industry. Says Carroll: "I think we are down to a pretty good, solid, profitable company."

And more. Even as the parent company was plunging into the red, the railroad was coming back from the dead. Katy had written off its investment in the railroad years ago, but with federal money and skilled management Carroll gradually nursed the railroad back to health. By the early

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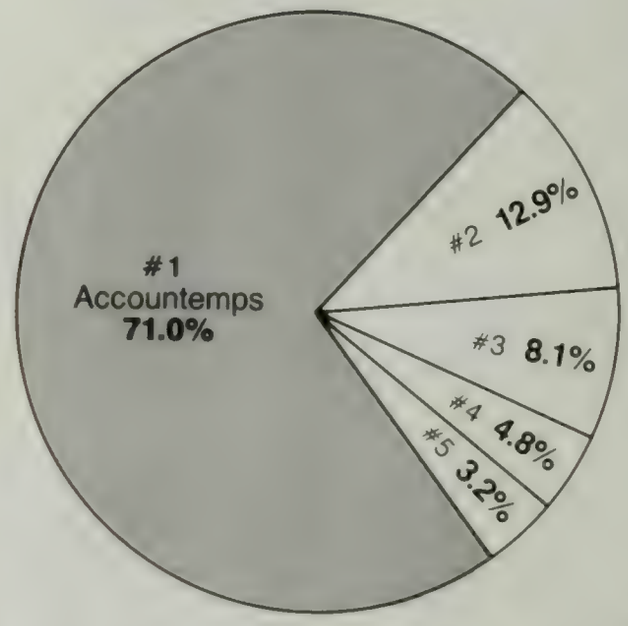

Results of a survey by Burke Marketing Research on temporary services specializing in accounting and bookkeeping personnel.

The percentages reflect only the six major specialists in financial, accounting and bookkeeping positions

Personnel directors of a cross-section of large corporations were asked this question:

"In your opinion, of the temporary services specializing in accounting and bookkeeping personnel, which one is best?"

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Eighties, three major railroads were eyeing its acquisition. A few weeks from now, after three years of delay, Union Pacific will finally buy it. The price: over $100 million, half in cash and half in 7.5% Missouri Pacific notes convertible into Union Pacific common.

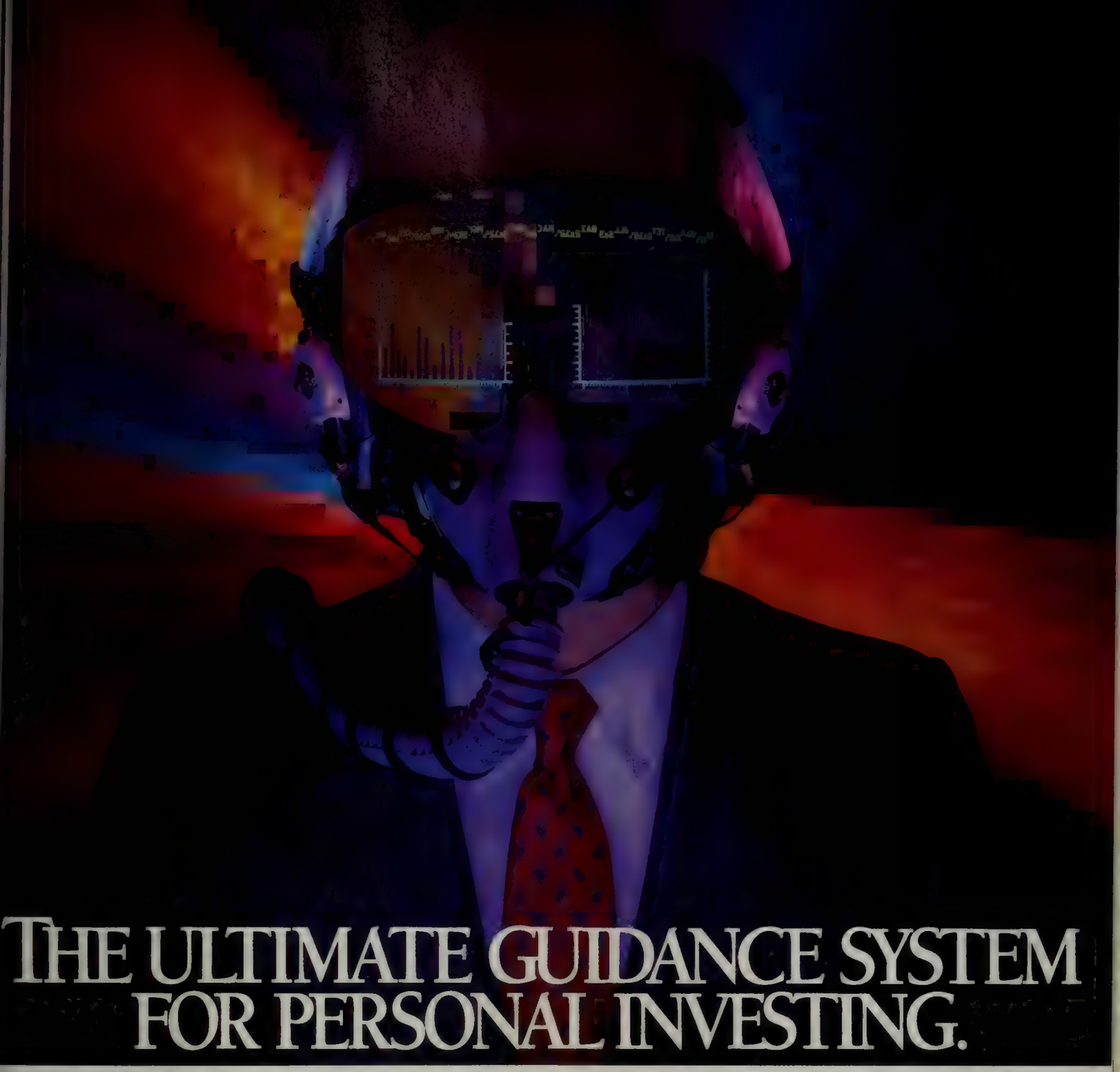
Where does Katy go from here? Still remembering his Depression experience—a lesson repeated for him when Katy almost went under a few years ago—Carroll is playing it safe. "My personal feeling is that there's going to be a recession this year," he says, "and it won't be an easy one." So, Carroll is battening down the hatches. "The consensus among the board is to put that $100 million in Treasurys, so we don't lose any principal, until the economic picture gets clearer," Carroll says. "I lived and worked through the Depression of the Thirties and it leaves scars. That $100 million coming in from the Katy will enable us to weather any storm that comes along."

"My personal feeling is there's going to be a recession this year, and it won't be an easy one," says Wallace Carroll.

After the storm, presumably, Katy will be in good shape to look for bargains in the debris. If not Wallace Carroll, his sons. Carroll himself has stepped aside, if not exactly down. President Jacob Saliba, 74, is now chairman, and William H. Murphy, 56, Katy's chief financial officer, is president. Behind Murphy there are four other Carrolls for the future, including Denis H., 49, who runs his own company, American Couplings, and Barry J. Carroll, 44, who is a Katy vice president.

As Carroll lessens his work load, he leaves behind an impressive pile of assets. In selling off its operations, Katy retained 37.5% of the shrimp operation and 20% of the silverware company, among other interests. And, of course, there's that $100 million in cash and stock coming from Union Pacific. Even after paying taxes on the gain, the Union Pacific money will amount to some $11 a share—close to its recent $15 market price. "Maybe they're still cynical about the deal going through," says Carroll.

Carroll may be wrong about a recession, he may be excessively cautious, but hard experience has taught him that preserving capital is at least as important—and just as difficult—as making it grow. ■



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The ATR 42 and ATR 72 were designed
short distance flights and to answer to flu
ations in airline passenger traffic. Their sea
capacity can be extended from 46 to 70 s
Around them has materialized the ATR sys
Today, to build an aircraft is not enough: ab
all, what we are building into it, is its pro
bility. The supporting logistics endow the
craft with presence, power, and adaptabi
Our aircraft are the result and the expressio
a system: the ATR system.

OUR GEOGRAPHIC PRESENCE: Over 3

THE TOT

LOGIC

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As they said of the Holy Roman Empire, it was neither holy, nor Roman, nor an empire. Will history say the same things about 1992 and the coming of European economic integration?

An impossible dream?

By Susan Lee

NO QUESTION—1992 has inflamed Europe. That's the deadline set by the European Community for its 12 nations to end 1,000 years of economic separatism and meld together into one economic unit. And what a unit! With 323 million consumers, the united states of Europe—as it's being billed—would be the largest internal market in the developed world, some 100 million larger than the United States of America. Indeed, the Euroboast is that 1992 will be the year that the EC bursts on the economic scene as an equal partner with the U.S. and Japan.

Will the united states of Europe really fly, though? Or will it be a rerun of events 30 years ago when the original six EC nations agreed to abolish internal tariffs and quotas? Hopes were high, commitment was strong, and the goal was mostly achieved by 1968. But then ancient nationalisms reasserted themselves, and Europe's progress on economic integration came to a halt.

The resurgence of nationalism was stimulated by a series of setbacks that drove each country to look after its own interests. In the early 1970s, the EC was hammered by economic events: The failure of Bretton Woods created monetary chaos and the energy crisis hit hard at the real economy.

In response, new border taxes were levied, national production or trade quotas were reintroduced, national subsidies increased and nontariff barriers to trade multiplied. These policies not only stopped progress toward more integration, but also erased many gains.

The gains had been impressive: EC growth averaged almost 5% annually between 1961 and 1973, outpacing that of the U.S., and unemployment was, on average, lower than that of the U.S. over the same period. Yet when push came to shove in the currency and oil crises, it was every country for itself and forget about union. It was as if Europe was unable to shake its ancient curse of disunity.

Nonetheless, undaunted by either the magnitude of the task or the forces of history, the European Community's Eurocrats have come up with a scheme to achieve economic integration by 1992. Their vision emerges from some 300 directives contained in a document called "Completing the Internal Market," and referred to as the White Paper. And in corporate headquarters throughout the world, in advertising agencies, in the offices of big money-movers, everyone is trying to position him- or herself for the great day.

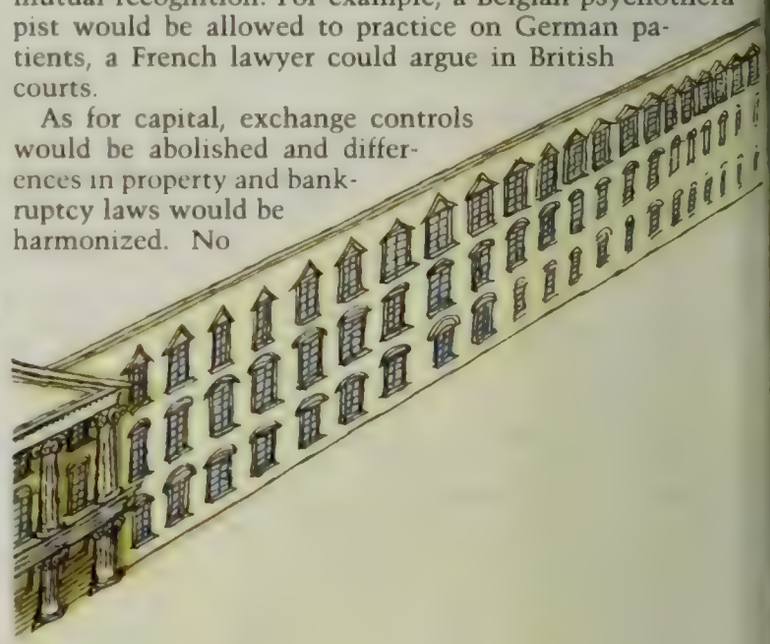
The White Paper aims at promoting the movement of goods and services, labor and capital within the EC. This sets an incredibly complex task: Thousands of laws and regulations governing the production and sale of goods and services and the movement of people and capital must be either abolished or "harmonized" (a favorite Euroword, meaning that when complete agreement among the 12 nations is impossible, approximate agreement is okay).

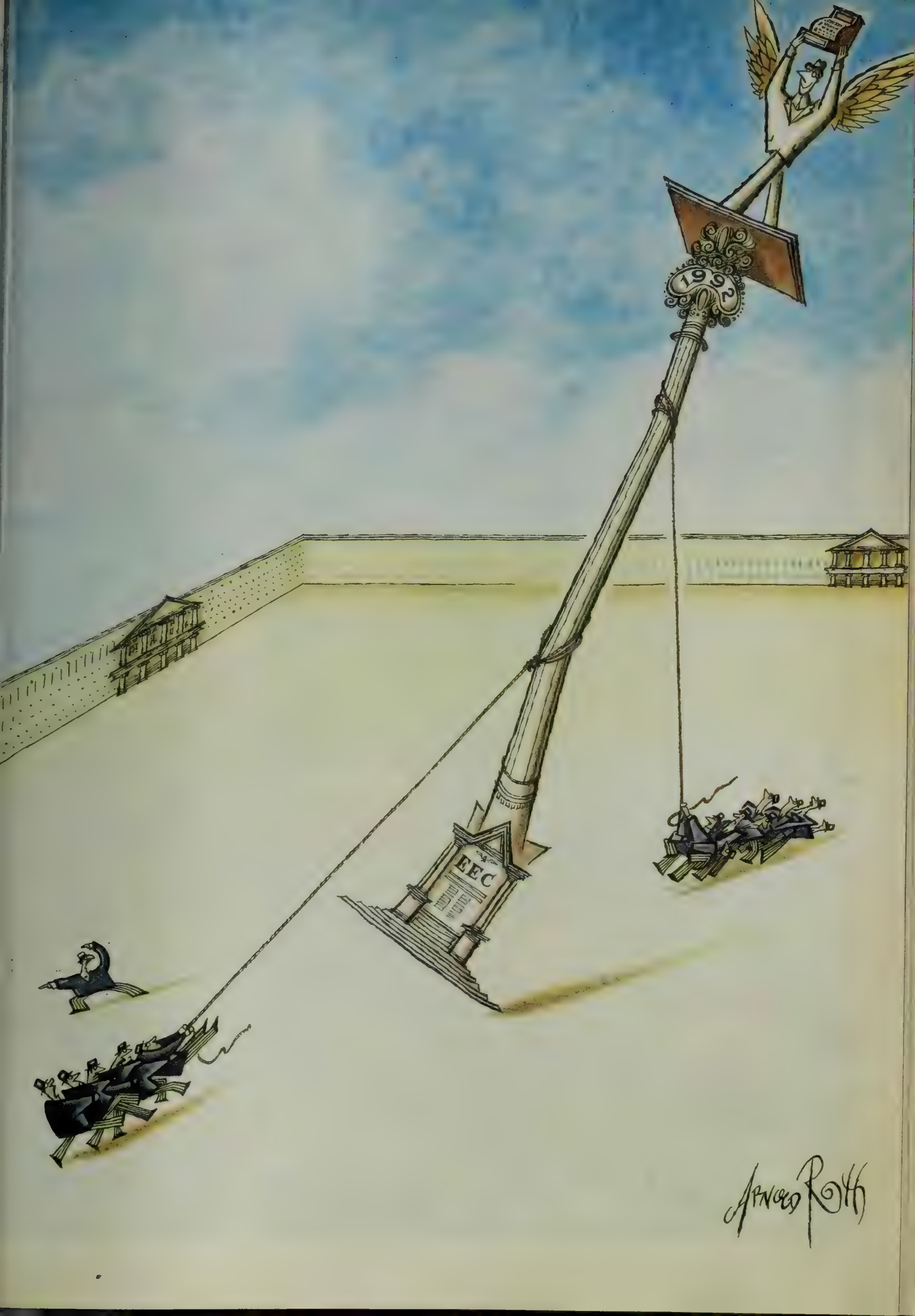
Differences in technical standards and regulations, value-added and excise taxes, will need to be harmonized. Take, for example, a simple farm tractor. There are over 100 separate requirements that must now be met if a tractor is to be sold in the EC—governing everything from the width of its headlights to the length of its mudguards.

As for the free movement of services, licensing restrictions in banking and insurance would be removed, and competition in air transport would be introduced. In banking, for instance, cross-border solicitation of deposits would be permitted as well as cross-border lending in the bank's own currency.

To promote the movement of labor, residence requirements would be abolished, the right of establishment for professionals would be insured, and diplomas accorded mutual recognition. For example, a Belgian psychotherapist would be allowed to practice on German patients, a French lawyer could argue in British courts.

As for capital, exchange controls would be abolished and differences in property and bankruptcy laws would be harmonized. No




1992
EEC
Arnold Roth

Denmark
5.121
$15,116
8.0%
121.9
Netherlands
14.572
$12,467
14.1%
106.8
U.K.
56.763
$10,610
10.3%
113.2
Ireland
3.541
$5,936
19.0%
144.2
W. Germany
61.080
$14,488
8.9%
106.6
Belgium
9.851
$12,725
15.9%
105.7
Luxembourg
0.370
$14,568
1.7%*
124.1
France
55.393
$13,194
10.6%
102.1
Spain
38.668
$6,066
20.9%
111.9
Portugal
10.230
$2,687
6.8%*
127.3
Italy
57.221
$8,870
12.0%
102.7

Figures for population, GDP per capita and unemployment from OECD, *Main Economic Indicators*, May 1988
Figures for production from *Industrial Trends*
* From *Unemployment Monthly*, March 1988
† Figure for March 1988 only

E pluribus unum?

The 12 nations committed to creating a single market by 1992 vary enormously in population, GDP per capita, unemployment and production rates. For example, Portugal has twice as many people as Denmark, but its GDP per capita is not even one-fifth of Denmark's. Just four countries — France, West Germany, the U.K. and Italy — have 71% of the European community's population, but none ranks at the top of the economic indicators listed here. These economic disparities are huge, and will work against 1992.

Laszlo Kubinyi

longer, then, would companies be limited in the size of foreign checks they could cash or the amount of foreign currency they could hold.

If all these directives are agreed to, the EC will have created one vast, internal market. But that in itself is a mighty big if.

There are other problems. The integration proposals are based partly on the argument that the huge market will enable the most successful companies to achieve economies of scale. The payoff, according to the Eurocrats, is that EC economic growth would accelerate from its current 2% annual rate to around 5%. Some 2 million jobs would be created, and prices would fall by 6%.

Unfortunately, however, economies of scale may not be as important as the Eurocrats imagine. This will not surprise Americans who have watched with fascination as General Motors, whose economies of scale were legendary, lost the lead in profitability, not only to much smaller Japanese companies but to smaller U.S. companies like Ford and Chrysler as well.

Based on this and other experiences, many observers think that the notion of economies of scale itself is out-of-date. Technological advances, such as computer-aided manufacture, and institutional innovations, such as flexible management systems, make smaller runs not just profitable but necessary to keep up with fast-changing and increasingly specialized markets.

If economies of scale are such a big deal, why hasn't the Soviet Union been able to achieve them with its vast, protected market?

Indeed, many economists argue that the EC's economic problems and slow growth are caused not by inadequate market size but by inadequate access to markets—that is, by inadequate competition. This view argues that the EC should be concentrating on freeing markets from subsidies, quotas and external tariffs so that the economy has the necessary flexibility to adjust to changing conditions. Size per se is no guarantee of such flexibility and may, in fact, hamper it.

And this is where the White Paper really disappoints. It barely mentions dismantling barriers to internal and external competition in large and important chunks of the economy. Nor does it deal with the policies that have created structural rigidities in the labor force, supported inefficient industries and perpetuated bad management.

There is little indication, for instance, that the EC intends to eliminate internal subsidies and quotas in agriculture, steel, fisheries and textiles. As is well known, the EC's agriculture policy has resulted in vast economic waste, with mountains of butter and lakes of wine.

Nor is there much talk of removing barriers to external competition—such as various types of quotas on cars, textiles, footwear and electronics—or of stopping voluntary export restraints for textiles, footwear, cars and steel.

Moreover, the White Paper is mostly silent on introducing competition into an even bigger chunk—15%—of the EC's economy, government procurement. That's the practice of allowing governments to purchase supplies and services for public works from local firms without competitive bidding. Public works include everything from highly technical projects such as defense to the building of public housing. Crucial sectors—energy, transportation, water supply and telecommunications—have been exempted from 1992 tampering.

Nor does the White Paper propose dismantling the industrial policies that have created economic gridlock. Consider:

In many EC nations, labor practices insure high unemployment. In the U.K., unemployment benefits are based

mostly on need, not on past earnings. Thus a jobless worker with a big family can earn more by being on the dole than by working. Generous benefits create disincentives to moving to another town to find new work and remove pressure on employed workers to moderate their demands. Further, the social insurance necessary to pay these benefits jacks up employment costs. In Italy, payments hover around 50% of wages. In the U.S., by contrast, these costs have run about 17%.

There are, as well, restrictions on firms that prevent their responding to changing markets. Employers are encumbered by stiff regulations on hiring and firing. Shopping hours in some countries are fixed. In Germany, for example, shopping is limited to 5½ days a week.

And in much of Europe, legal restrictions on wage competition reinforce the power of unions. For instance, in Germany union wages set the industry standard, even for nonunion companies, and some firms labor under work rules that make it impossible to run a second or third shift.

Nationalized industries are a drag on the economy. Yet they, too, are ignored by the White Paper. As Herbert Giersch of the Kiel Institute says: "Look at the railways, at the airlines, at telecommunications. These nationalized industries are very inefficient and very expensive. It's cheaper to phone West Germany from the U.S. than it is to phone the U.S. from West Germany."

If the EC really intends to create an economy to reckon with, says Alan Stockman of the University of Rochester, "There must be a real commitment by the governments to dismantle the restrictions embodied in their industrial policies." That means letting grossly inefficient businesses go out of business and allowing the mildly inefficient businesses to fire workers, redeploy remaining ones and hire new workers without fear that the decision is permanent. It means assuring efficient businesses, and new enterprises, that government will keep its mitts off.

Not likely. The Eurocrats have tackled the easy ones; the hot potatoes remain outside their province.

But let's leave aside the White Paper's giant omissions for the moment and assume that its 300 directives become law by 1992. (A long leap of faith: Since the publication of the White Paper, in 1985, only 91 of the least controversial directives have been adopted.) And let's say that it does promote competition, at least within certain sectors in the Community. What is likely to happen?

Cheap labor in Spain and Portugal will bid companies away from expensive labor countries like Germany. Workers in Spain and Portugal will be happy, German workers will be unhappy. Competition in air transport will favor more efficient air carriers like British Air and Lufthansa and will seriously hurt inefficient national airlines like Sabena, Aer Lingus, Iberia and Alitalia. That will please the U.K. and Germany, but Belgium, Ireland, Spain and Italy will be furious.

Will German insurance companies be sanguine when German consumers start buying cheaper life insurance from the Brits? Will the French be cheerful when their high-tech industries relocate to the U.K.? How will Italian banks feel when Italians motor their savings into non-Italian banks?

If these things are allowed to happen, estimates are that as many as one-half of Europe's firms could disappear. Imagine the pain. Imagine the protests. Can anyone conceive of local politicians allowing these collapses and dislocations to happen?

Clearly the winners—many transnational companies, niche manufacturers and low-wage labor areas—will be happy and enthusiastic supporters of the internal market. But what about the losers? Will they be philosophical about it? Says Patrick Minford of the University of Liver-

SIMPLE PLEASURES.

pool: "There will be lots of problems, especially from the labor side of things. Very highly unionized countries, like Germany and the U.K., will object to competing with nonunionized labor."

What happens when the losers, many of whom have already demonstrated their lobbying prowess, start complaining? What if, for example, the governments of the losers respond—as they've done before—by subsidizing the ailing industries? As L. Alan Winters of the University College of North Wales points out, letting nations continue to subsidize when internal barriers have been dismantled would be very, very bad. "Resources would then be free to flow to the subsidized industries," he says. "That would create even more inefficiency."

Beyond some tut-tutting on preventing new obstacles to an internal market, the White Paper doesn't address these disasters-in-waiting.

On top of this, freer capital mobility will make it difficult for member nations to conduct independent fiscal and monetary policies. Say that France wants to increase revenue by raising taxes on business. It does, only to watch businesses relocate to lower-tax nations and, of course, its tax revenues then fall. There's no question that member nations would have to give up some sovereignty in fiscal and monetary matters and resign themselves to much closer cooperation. But will they? Although the Eurocrats may propose, it is the real world that disposes.

And the real world can be stern in its judgments. The result of the frenzy of regulation and subsidization that occurred in the early 1970s, for example, was a state of Eurosclerosis—the Euroword describing how the lack of flexibility in wages and industrial structure inhibits economic adjustment.

Eurosclerosis is a wicked disease. Between 1973 and 1980, it cut economic growth in half. And after 1980, growth averaged a scant 2%. Unemployment rose steadily after 1973 and very rapidly after 1980. The rate is now around 11%—much higher than unemployment in either the U.S. or Japan since 1981. And industrial production has been below that of the U.S. and Japan for the past six years.

In terms of the standard of living afforded its citizens, the EC ranks seventh behind the U.S., Canada, Scandinavia, Japan, Australia and the OPEC countries. Per capita, the EC spends less on leisure than either the U.S. or Japan and has fewer telephones, televisions and cars than does Canada.

Will German insurance companies be sanguine when German consumers start buying cheaper life insurance from the British?

Doubtless, the White Paper's directives are an important step toward revitalizing the EC economy. If nothing else, the idea of an integrated market has lit a flame under many Europeans. Companies have begun to crank 1992 into their corporate strategies: The French are gearing up to sell more autos in Germany, the British are getting set to invest in Greece, Germans are planning factories in Portugal, and Italians are figuring on marketing everywhere.

All to the good, but lest excessive expectations lead to bitter disillusionment, it is well to remember that the White Paper is only a first, rather bitty, step. As the Kiel Institute's Herbert Giersch says: "1992 is not a magic date." This is not to say that Europe isn't making real progress toward economic integration. But to expect too much of 1992 is to doom Europe to a rerun of the 1970s, when the forward trend reversed and it was every man for himself again and the devil take the hindmost. ■

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When does an asset become impaired? Current accounting rules leave that decision up to management. Smart?

"You know it when you see it"

By Penelope Wang

LAST WINTER wasn't a particularly good one for Pillsbury Co., and a footnote in the company's third-quarter report to shareholders showed why: a $113 million loss on the sale or shutdown of several restaurant operations, including its money-losing Godfather's Pizza chain. But precisely how did Pillsbury, which saw its stock jump nearly 10% in value on the day of the announced writeoffs, wind up with the $113 million figure? You'll search Pillsbury's financials in vain for an answer, as indeed you would in the case of almost any other company engaged in writing off failed (or failing) assets.

The 1980s are clearly the decade of business restructurings and writeoffs. But, ironically, accounting provides few rules to protect shareholders regarding when management can (or must) write off an "impaired asset," and by how much.

Since 1986 the Dow Jones industrials alone have taken at least $10 billion in writedowns, much of it related to impairment questions. A recent study by the National Association of Accountants reports that these impairment writeoffs are one of the fastest-growing categories of all asset writedowns. Further, the study concludes that behind the numbers lurks "a climate of vague accounting standards" that gives companies too much leeway in choosing when and how to write down assets. That feeling was echoed in a survey of accountants by the Financial Accounting Standards Board who ranked impairment at the top of outstanding issues warranting new standards.

Yet many corporations don't seem eager for tightened standards, arguing that management is the best guide for when an asset becomes worthless. Even so, lax accounting standards can lead to abuses. In 1986, for example, the Securities & Exchange Commission took action against Charter Co. for attempting to sell a refinery at well below book value without first writing it down on its balance sheet. Warns Edmund Coulson, chief accountant at the SEC: "There are many other such cases in the pipeline."

What are the rules governing impairment? Under current accounting principles, a long-lived asset (plant, property and so on) should be labeled "impaired" when there is no hope of recovering its book value. Of course, hope, or lack of it, is in the eye of the beholder. Comments Wayne Kolins, partner at accounting firm Seidman & Seidman/BDO: "In these situations, it's often a case of people saying, 'You know it when you see it.' "

Once an asset has been judged impaired, companies also have considerable leeway in determining what balance sheet value to assign to it. Among the acceptable methods: net realizable value (what the asset will bring if sold); a total of projected future cash flows over the life of the asset; and "discounting"—the present value of those future cash flows based on a given rate of return. Since future cash flow is worth less than cash in hand, discounting can result in lower valuations and larger writeoffs.

To complicate matters, businesses have begun announcing partial writedowns based on "probable" impairment. This includes assets whose return no longer meets carrying costs but which might recover their value in the future. Thus in 1986 Squibb Corp. decided that political and economic conditions in South America and Asia had impaired its pharmaceuticals operations there. Squibb took a writedown of $68 million on those assets, declaring them "permanently" impaired. But are they really? Since Squibb concedes that there remains a "small probability" that those assets will recover, it is operating those facilities on a reduced scale.

With writedowns becoming such a common—and costly—feature of a business scene that is complex enough already, such accounting doublespeak is hardly to be welcomed. But without a clarification of the rules, there seems little doubt that it will continue. ■

Mark Gallet

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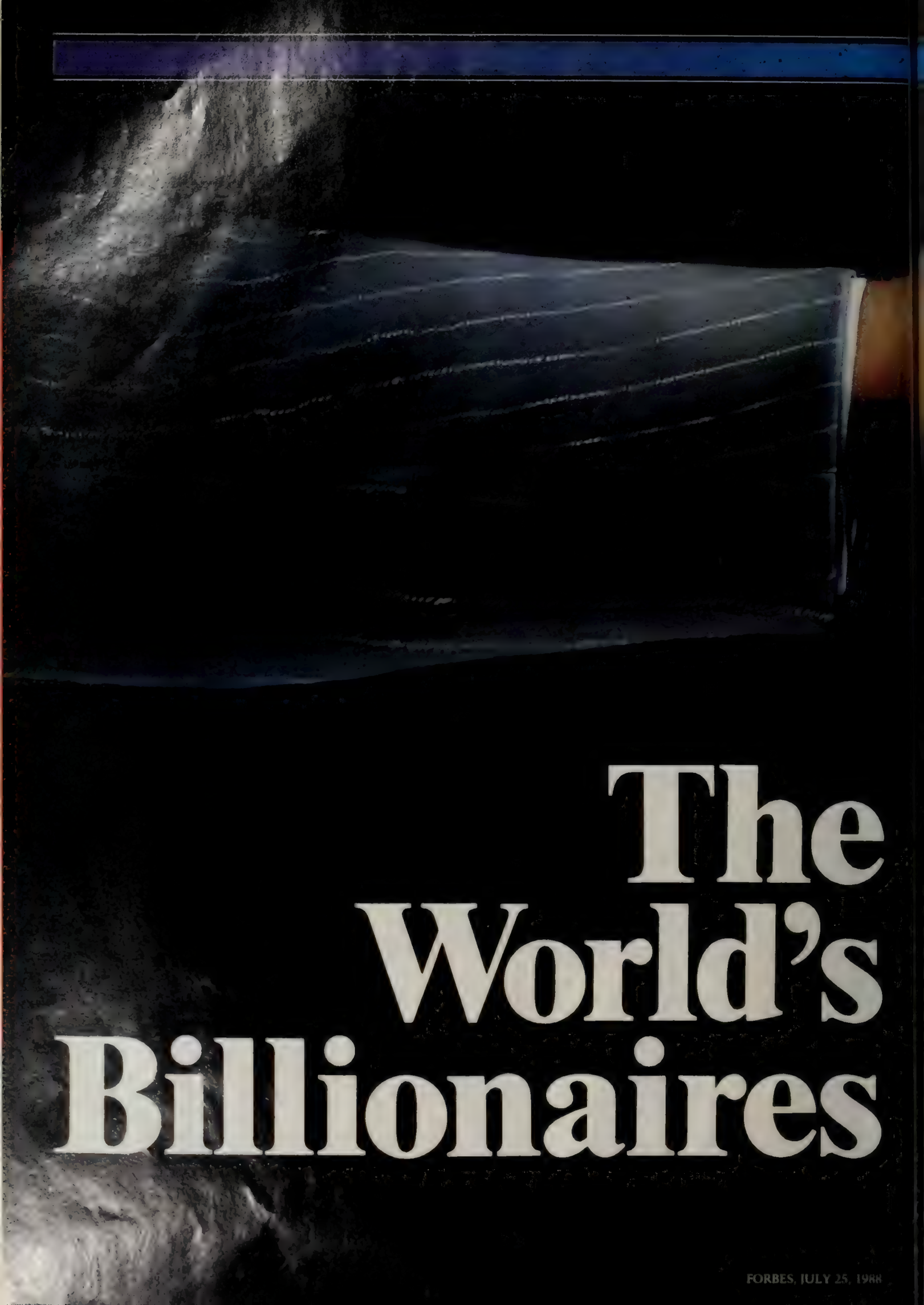
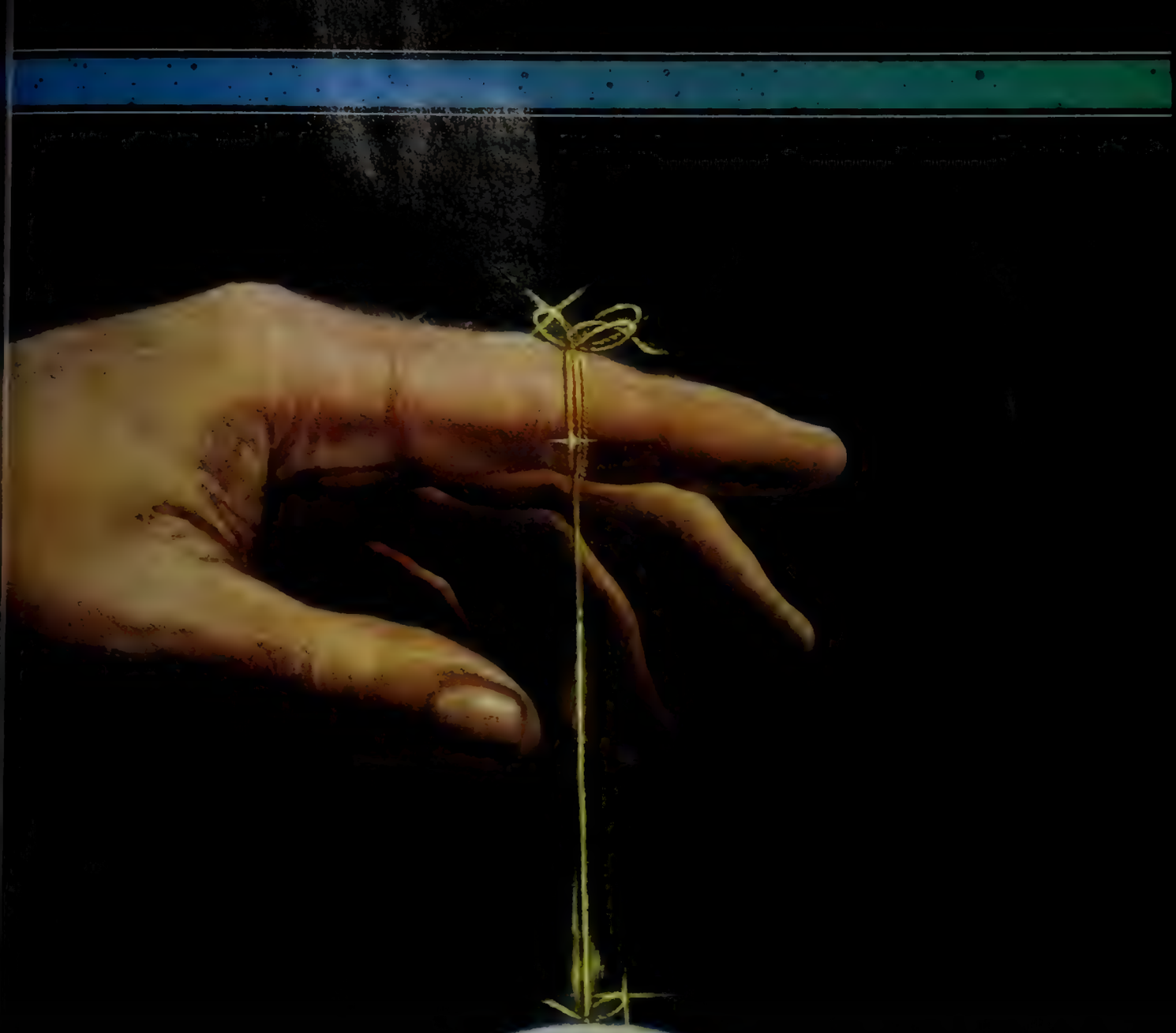


The World's Billionaires

FORBES, JULY 25, 1988



By Harold Seneker

No question, the billionaires' biographies make fun, sometimes scandalous, reading. But if gossip and titillation were the only results, we'd leave the work to television or to those publications that dote on the rich and celebrated.

There is social and economic virtue in this project. It serves a serious purpose. These are people—sometimes celebrities, sometimes purposefully obscure—who exert a powerful influence on a global economy that is becoming more accessible and intertwined by the day. Most of the 192 billionaire individuals and families we have unearthed created their fortunes in their home countries and are now spreading their wealth into productive investments in far-flung countries. With an electronic blip, a major urban office building changes hands. Another blip, and 5% of a big, publicly traded company is suddenly in foreign hands. These electronic impulses are not created by abstract forces. They come from real people, a number of whom are listed among our billionaires.

Consider Li Ka-shing, thought by many to be Hong Kong's most influential businessman. Through shrewd pyramiding reminiscent of Samuel Insull and other great Wall Street

Illustration by Kinuko Craft

financiers of the 1920s and 1930s, Li controls companies that account for over 15% of the Hong Kong stock exchange's total market value. Now Li is expanding the pyramid to Canada, favored by many Hong Kong Chinese for investment (and as a possible future home). Last year he paid $418 million for control of Canada's Husky Oil Co.; part of the investment was made by Li's Hutchison Whampoa trading company, part by Li's son Victor, now a Canadian citizen.

Husky in hand, Li quickly used it to buy control of Canterra Energy Co., a big natural gas and sulfur producer in western Canada, for C$375 million ($300 million). Beyond Canterra Energy, Li's Husky Oil has offered Texaco a reported $3.7 billion for Texaco Canada, which has 11% of Canada's retail gasoline market. And beyond oil, in April a Li consortium (including fellow Hong Kong billionaire Cheng Yu-tung—see p. 154—and Lee Shau-kee) won the bid to develop Vancouver's Expo site. This is a $1.6 billion megaproject called Pacific Place that will fundamentally alter urban development on North America's West Coast. Meanwhile, Li companies have bought 4.9% of Britain's proud Cable & Wireless, which has brilliant telecommunications prospects throughout Asia.

Is it useful for business people and for investors to know about Li Ka-shing and what he is about? Emphatically, yes.

There is another reason for tracking the world's big fortunes. Amassing great wealth says much about the societies in which the wealth is amassed. As you read through the billionaires' stories, patterns begin to emerge. Notice how many European fortunes—at least 16—have been built since the end of World War II on retailing and other distribution businesses. When Europe entered the war, mass consumer markets had not yet developed there—as they had in the U.S. in the first third of the 20th century when Sears, Woolworth, Merrill and other U.S. merchant princes accumulated vast wealth. Thus the stories of Sweden's Ingvar Kamprad (p. 118), France's Bouriez brothers (p. 114), Germany's Otto Beisheim (p. 104), England's David Sainsbury (p. 103) and other European merchant billionaires are interesting in their own right—and important in demonstrating how far the democratization of consumption has progressed in Europe since it built itself up again out of the ruins of the economic and social order destroyed forever by World War II.

The majority of Japan's billionaires—18, of a total of 34—made their money by buying land when it was affordable, and holding on. This illustrates a central fact about Japan that many foreigners forget: that Japan has about half

How to track a billionaire

This is our second annual listing of the world's billionaires. It's our road map of world wealth. Where is it? How was it made? Who owns it? Have we found every billionaire? Of course not. But this year's survey does include a couple dozen newly uncovered billionaires and looks, where possible, at what they are doing with their money. We now know of at least 192 individuals or families, 125 of them foreign, whose net personal assets are worth over $1 billion. (American billion-dollar-plus wealth, summarized on the facing page, will be reviewed more extensively in the seventh annual Forbes Four Hundred issue in October.)

Our survey includes only private fortunes that have been accumulated through economic endeavor. We deliberately exclude royal families from consideration. Queen Elizabeth, King Fahd and the Sultan of Brunei are no doubt wealthy people. But their wealth derives more from political heritage than from economic effort. Nor, in many cases, are their assets disposable. Could King Fahd sell Saudi Arabia's oilfields? Can Queen Elizabeth sell the crown jewels? One has one's doubts. So we have again excluded royalty.

Likewise with dictators. Dictators often live more lavishly and always wield more power than the wealthiest of business people. Rumania's Marxist dictator Nicolae Ceausescu is now bulldozing huge tracts of once beautiful Bucharest into rubble and razing hundreds of ethnic Hungarian villages in Transylvania in a sick attempt at "modernization." But his power and lavish lifestyle have nothing to do with economic achievement and everything to do with keeping the loyalty of his brutal police force. So we leave dictators Ceausescu, North Korea's Kim Il Sung, Zaire's Mobutu Sese Seko and their ilk from consideration.

Many famous business names are conspicuous by their absence from our pages. This is not because we don't know about Sir Jimmy Goldsmith, say, or Carlo De Benedetti. We looked at them and were not convinced that their private net worth comes to $1 billion or more at current stock and other market values—and at rates of foreign exchange in force as we went to press at the beginning of July. Remember, our estimates are net worth; the world is full of people with billions in assets and equal billions in debts. (For several individual and family fortunes we considered and then dropped, please see "A few who failed to make the cut," on page 162.)

In deciding whether to include a fortune, we count in assets in the names of close relatives and private holding companies. In certain cases we also credit assets held by foreign foundations, where we are satisfied that the foundation serves the individual owners primarily as a tax avoidance device.

Using methods refined by FORBES over years of tracking and measuring wealth creation, our reporters and editors have created a unique and continuing panorama of the great economic drama.

COMING SOON: The Forbes Four Hundred—the 400 richest people in the U.S. Dated Oct. 24, our seventh annual compilation of U.S. wealth will include biographies of the four dozen or so individual Americans who qualify as billionaires.

s many people as the U.S., and usable land about the size of New England. The consequent feelings of isolation and hemmed-in-ness are at the root of many of the Japanese economic and political decisions made during much of this century.

Interestingly, four of our Japanese billionaires built their fortunes on retailing. This suggests that the Japanese are beginning to consume imports as well as produce exports. Good news for world trade imbalances. We hazard a guess that we'll see more Japanese retail fortunes in the years ahead.

And the U.S.? Had someone listed the great U.S. fortunes of a century ago, they would have been made mostly by the great industrialists who built the railroads, the steel mills, the coal mines. Later would come the merchant prince fortunes, created by those who could exploit the developing mass markets here.

A surprising percentage of today's American billionaires are media magnates, whose wealth comes from the production and distribution of intangible commodities: information and entertainment. Will this changing pattern repeat in Europe and the Far East? One suspects it already has, preparing the way for the creation of new fortunes and the eclipsing of older ones. ■

Number of billionaires per country*

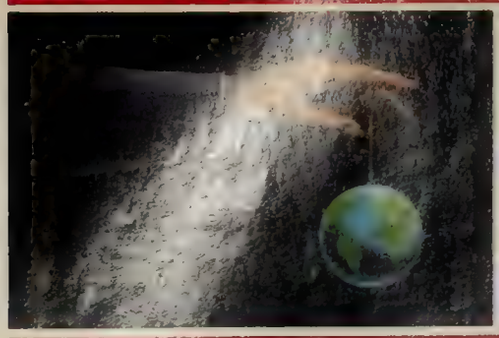
* Excluded, The Aga Khan, citizen of the world.

Where the most richest are

The U.S. still accounts for more billionaires than any other country—at least 47 American individuals and 20 families are worth over $1 billion, versus 32 individuals and 2 families in second-place Japan and 16 in third-place Germany. All of Europe accounts for 44 billionaire individuals and families. Below is an extensive sampling of the known U.S. billionaires as we go to press.

Sam Walton, Wal-Mart Stores, $6.5 billion
John Kluge, Metromedia, $3 billion
H. Ross Perot, Electronic Data Systems, $3 billion
David Packard, Hewlett-Packard, 2.5 billion
Donald & Samuel Newhouse, publishing, $4.7 billion
Warren Buffett, Berkshire-Hathaway Inc., $2.1 billion
Lester Crown, inheritance, $2.1 billion
Jay & Robert Pritzker, financiers, $3.8 billion
Barbara Cox Anthony & Anne Cox Chambers, Cox Enterprises, $3.6 billion
A. Alfred Taubman, real estate, $1.8 billion
Ted Arison, Carnival Cruise Lines, $1.6 billion
Henry Hillman, industrialist, $1.5 billion
Sumner Redstone, entertainment, $1.5 billion
Samuel LeFrak, real estate, $1.5 billion
Edgar Bronfman, Seagram Co., $1.5 billion
Marvin Davis, oil & investments, $1.45 billion
Harry Helmsley, real estate, $1.4 billion
Philip Anschutz, oil & investments, $1.4 billion
William Gates, Microsoft, $1.4 billion
Leonard Stern, pet supplies & real estate, $1.4 billion
Ray Hunt, oil & investments, $1.3 billion
Donald Bren, real estate, $1.3 billion
Charles Sammons, cable & insurance, $1.3 billion
Edward DeBartolo, shopping centers, $1.25 billion
William Hewlett, Hewlett-Packard, $1.2 billion
Rupert Murdoch, News Corp., $1.2 billion
Robert Bass, oil & investments, $1.2 billion
Edward Gaylord, broadcasting, $1.2 billion
Leslie Wexner, The Limited, $1.2 billion
Forrest Mars Sr., candy, $1.15 billion
Forrest Mars Jr., candy, $1.15 billion
John Mars, candy, $1.15 billion
Jacqueline Mars Vogel, candy, $1.15 billion
Margaret Hunt Hill, oil & investments, $1.1 billion
August Busch Jr., Anheuser-Busch, $1.1 billion
John Dorrance, Campbell Soup, $1 billion
David Rockefeller, inheritance, $1 billion
Sid & Lee Bass, oil & investments, $2 billion
Carl Lindner, insurance & banking, $1 billion
Charles & David Koch, oil, $2 billion
William Ziff, publishing, $1 billion
Donald Reynolds, publishing & cable TV, $1 billion

Other U.S. families with fortunes estimated at $1 billion or more:
Du Pont family, chemicals, $10 billion
Rockefeller family (incl. David), oil, $5 billion
Getty family, oil, $3.4 billion
Hearst family, publishing, $3.4 billion
Upjohn family, pharmaceuticals, $2.3 billion
Cargill/MacMillan family, commodities, $2 billion
Annenberg family, publishing, $2 billion
Phipps family, steel, $1.9 billion
Lilly family, pharmaceuticals, $1.5 billion
Chandler family, publishing, $1.3 billion
McCaw family, communications, $1.3 billion
Haas family, Levi Strauss & Co., $1.2 billion
Wattis family, construction, $1.2 billion
Scripps (E.W.) family, publishing, $1.2 billion
Weyerhaeuser family, paper products, $1.1 billion
Bacardi family, liquor, $1.1 billion
Donnelley family, printing, $1.1 billion
Cullen family, oil, $1.1 billion
Kleberg family, oil, $1 billion
Lykes family, shipping, $1 billion



Europe

Will business succeed where armies failed?

Europe's capitalists are aquiver. In theory, come 1992 any business or product legal in any Common Market country will become legal in all. Dutch banks can expand into Spain, French hypermarket chains into Belgium, as freely as a New York company can expand into Connecticut.

The opportunities for wealth creation will be immense—but the change will be wrenching. In Spanish banks, for example, operating costs average 2.8% of assets, compared with 1.75% in Germany, 1.9% in France. Some 40 foreign banks that are now in Spain will be able to underprice the Spaniards. Painful rationalization is inevitable. Indeed, the Bank of Spain has suggested that by 1992 the old oligopoly of 6 banks controlling 80% of Spain's commercial bank deposits could shrink to 3 larger, Euroscale banks. Publishers, by contrast, will enjoy a windfall. Notes Rosemary Sagar, an analyst with Baring Securities: "All of those textbooks on corporate law, accounting and taxation will have to be completely rewritten."

Of course, the changes may be so painful as to be politically unacceptable *(see story, p. 78)*, in which case Europe will continue to suffer the penalties of economic fragmentation and sovereignty will have triumphed once more over efficiency. That would be a shame. Military and political leaders have wasted lakes of blood in their vainglorious attempts to unify Europe. Wouldn't it be a triumph if businessmen succeeded where kings and marshals failed?

Spain

BOTIN FAMILY
Beyond The Iberian Peninsula

Spain's heavy power brokers under General Franco were the Church and the military, the syndicalist labor movement and the banks. Among the latter, none was more powerful than Banco Santander, controlled and operated behind the scenes by the Botín family, several of whom were married to El Caudillo's ministers.

Actualidad Económica

[illegible] Jr. and Sr.

The Franco regime is a dimming memory, but the Botín wealth is as robust—and as publicity-shunning—as ever. "Quite frankly," one member of Spain's relatively narrow banking circle cautioned us when we made inquiries about the Botíns, "I think you're touching fire."

Fire or no, this is clearly a powerful family. Banco Santander was set up in 1857 in the Atlantic commercial port city of Santander to finance trade between Spain and Latin America. Today it is the only major Spanish bank still controlled by a single family. The Botíns' visible stake is only some 5%. But knowledgeable sources say affiliated Botín entities bring the total to 25%, worth around $1.5 billion at current market price.

For more than 30 years, Don Emilio Botín has been the bank's helmsman. Now 85, this shy, elegant man built Banco Santander through acquisitions within Spain. In the early 1950s he was the first to cultivate Spain's emigrant community in Latin America, flying off to Argentina and Panama to snap up banks. In 1965 he set up industrial lender Banco Intercontinental Español (Bankinter) with Bank of America, and put his son Jaime Botín in charge. The Botín stake in Bankinter is put at around 10%, worth $140 million.

Officially, Don Emilio Botín retired two years ago. His successor is his 53-year-old son, also named Emilio. The younger Emilio joined the bank more than 30 years ago. But until his father retired, he was reportedly never allowed to answer a single question during the annual spring rite when the Botíns invite the Spanish press to their mansion in Santander and announce the bank's annual results.

Now that his father is slipping quietly into the background, the younger Emilio, and several other family members on the board, will address the bank's toughest challenge: Europe in 1992. As Banco Santander's recent bid for Italy's Istituto Bancario Italiano suggests, the Botíns will use high-priced Santander stock to seek more acquisitions outside Spain. If they succeed, the Botín family members and their bank will be a force to be reckoned with far beyond the Iberian peninsula.—**Lisa Scheer**

MARCH FAMILY
Into The Light

The chance to profit from Europe's crumbling borders is apparently forcing even Spain's secretive March family into the open. Their March Group was founded on the Mediterranean smuggling profits of dynast Juan March—convicted of fraud in the Spanish Republic of the 1930s, grown rich under the patronage of Generalí-

Europa Tendo Actualidad Económica

Carlos March

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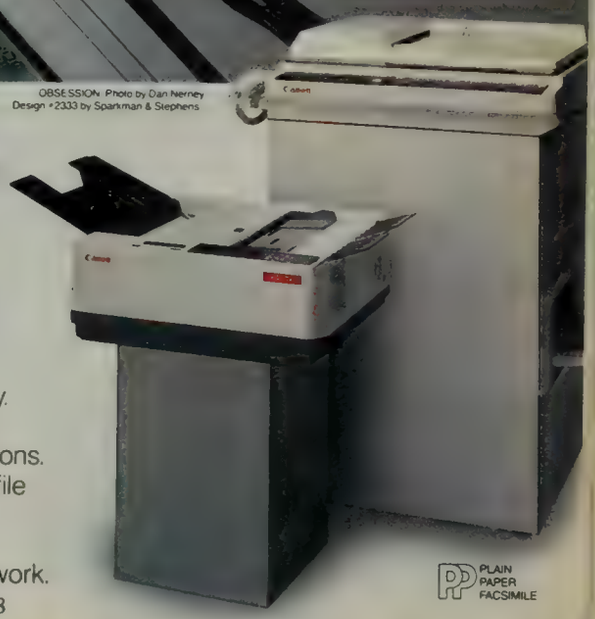
OBSESSION. Photo by Dan Nerney
Design #2333 by Sparkman & Stephens



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simo Franco and killed in a car crash in 1962. Today the founder's grandsons, brothers Carlos and Juan March, both in their early 40s, control a family fortune worth over $1.2 billion.

What are the grandkids into? Real estate. Through $680 million (market capitalization) Corporación Financiera Alba, half owned by the Marches, half by public investors, they are buying up and renting warehouses, industrial buildings and residences. They are throwing up office buildings in Madrid and Barcelona, and developing apartments and commercial buildings on their grandfather's former private estate in Majorca. The March Group also recently bought around 5% of newly formed Advent. Its aim: to grab control of sick Spanish companies, restructure them and then relaunch them on the bubbling Madrid Bolsa. Grandpa would be proud.—**Lisa Scheer**

RAMON ARECES
Spain's Merchant King

Probably worth some $5 billion, Ramón Areces is by far the richest man in Spain. In 1920, age 15, Areces emigrated from his poor Asturian village to Cuba. There he learned merchandising in his uncle's Havana department store. Back in Spain in 1934, Areces bought a small Madrid tailor shop that custom-made expensive clothes from imported fabric for the Spanish bourgeoisie. Six years later Areces opened his first department store and called it El Corte Inglés (the English Court), named after his original tailor shop.

In the depression that followed the Spanish Civil War, Areces expanded the store slowly. But by the late 1950s, Franco felt compelled to boost living standards. He relaxed, somewhat, his strict autarkic rules and allowed merchants like Areces to import more foreign goods. A cosmopolitan middle class took root and began to consume El Corte Inglés' wares. In 1962 Areces opened a second store. Today there are 19 stores plus 5 Hipercor hypermarkets. Expansion is almost exclusively self-financed: Long-term debt is zero and annual cash flow is almost $200 million.

Last year El Corte Inglés announced profits of $83.5 million on sales of $2.8 billion. But private companies in Spain routinely submit an understated financial statement to the Ministry of Finance. Besides the cash earnings, there is El Corte Inglés' extremely valuable real estate. Spanish analysts believe the company may actually be worth $5 billion. Sources say the Areces family owns 96.8% of El Corte Inglés.

Control of the El Corte Inglés fortune may soon change hands. Now 82 and a recluse, Areces is said to be seriously ill. At a recent Banco Central shareholder meeting, President Alfonso Escamez publicly summoned the Lord's help to keep his friend Ramón Areces alive. Rumor has it that Areces suffered a stroke. A company spokesman will say only that Areces "has a cold."

Who stands to inherit El Corte Inglés? One source says Areces has seven sons and "about" four daughters. Another insider says that Areces has children, but that they're all illegitimate. Says the company spokesman, perhaps wishfully: "Ramón Areces is a widower with no children. He is leaving the company to the employees."—**Lisa Scheer**

Italy

FERRUZZI FAMILY
He Should Have Called Milken

Movie-star-handsome Raul Gardini has put in motion forces that are still roiling Italy's business elite. Gardini, married to one of Serafino Ferruzzi's three daughters, had built Ravenna-based Ferruzzi Finanziaria into a powerful agricultural, chemical, financial services and pharmaceutical firm. Gardini, the family leader since his father-in-law died in 1979, has diversified aggressively. Ferruzzi is now a $4.3 billion (sales) conglomerate with over 50 companies.

F. Scianna/Magnum

Raul Gardini

Gardini's biggest gamble is his attempt to take over Montedison (FORBES, *May 2*). Starting in 1985, he acquired 42% control of Montedison, one of Italy's largest industrial holding companies. To finance the takeover, Gardini hatched a complex scheme combining asset-stripping and raising new money by selling shares in Ferruzzi Agricola. But then came Gardini's unusual proposal, a series of complex share swaps that would give investors a stake in Ferruzzi holding companies in exchange for their stock in lucrative partly-owned Ferruzzi subsidiaries. Spooked, investors began taking a closer look at Gardini's complicated proposal, and didn't like what they saw. In February the Italian stock market dumped Montedison, Ferruzzi Agricola and related shares. Gardini's leveraged holding was in trouble.

With the market stabilized now, it looks as if Gardini may gain control over most of Montedison after all—but at a steep price. He will most likely have to sell a chunk of Ferruzzi through Mediobanca, which will dilute Ferruzzi-Gardini families' control over old Serafino Ferruzzi's legacy. Even in Italy, there are rules for Michael Milkens. The Ferruzzi family's holdings are worth an estimated $2.8 billion.—**Tatiana Pouschine**

SILVIO BERLUSCONI
Silvio ♥ Perestroika

Another new European name on the list, Berlusconi, 52, was the son of a Milanese banker, but entrepreneur-

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Silvio Berlusconi

ial talent showed early. As a teenager Berlusconi earned pocket money doing homework for his fellow students, and went on to finance law school by singing French songs in clubs. In 1963 Berlusconi started a construction firm, Edilnord, convincing stodgy Italian bankers to lend today's equivalent of $5 million to an inexperienced young man (FORBES, *Jan. 25*).

In 1978 Berlusconi diversified into television with Telemilano, a tiny Milan TV station. He quickly grasped that the really big money was in broadcasting to the masses nationwide—and playing on close personal ties to Italy's Socialist prime minister, Bettino Craxi. The latter was especially important as Berlusconi energetically circumvented Italian laws prohibiting competition against the three government-owned national broadcasters. For television programming, Berlusconi brought in bulk soap operas, football games and other American shows and created a bonanza: Berlusconi now has some 60% of the total Italian television advertising market. Latest reported earnings exceed $100 million a year, and Berlusconi owns it all.

Having paid down once-substantial debt, Berlusconi, a major player in breaking down economic barriers between Western European countries, is now putting the cash flow to work in TV stations in such countries as France and Germany and buying up Italian movie theaters. (His reported goal is equity in 200 movie houses in the next few years: Berlusconi's firm has produced or invested in 70 Italian feature films in the last two years.) With perestroika freshening the air, Berlusconi recently persuaded the Soviets that advertising is an idea whose time has come and has won exclusive right to represent any Western company advertising on Soviet television. Berlusconi's estimated net worth: roughly $1 billion in lire, and who knows how many rubles are in the offing.—Tatiana Pouschine

GIOVANNI AGNELLI AND FAMILY

Fiat Money

Demonstrating that no good industrial turnaround shall go unpunished, some of Italy's politicians are fussing over the Agnelli family's $3.8 billion fortune, Italy's largest. Only ten years ago Fiat, chaired by Giovanni (Gianni) Agnelli, was in crisis. Agnelli brought in top-notch management, including the tough Cesare Romiti, who invested heavily and stunned Italy by taking on the Communist-dominated unions and laying off 23,000 workers. Toughness worked. Last year Fiat, founded by Agnelli's grandfather and still 40% owned by the family, had operating income of $2.6 billion on revenues of $30 billion.

Giovanni Agnelli

Mostly through Fiat, the Agnellis control companies that make up a quarter of the market capitalization of the Milan stock exchange. It is this concentrated wealth that has the pols fussing. In January the Socialist party raised questions about the Agnellis' control of over 20% of Italy's newspaper sales. The Agnellis will, for now, get to keep their two huge and influential Italian newspapers, *Corriere della Sera* and *La Stampa*, but notice has been served.

Agnelli has been growing more interested in the U.S. Here he invests through 12%-owned, $1-billion-plus (estimated revenues) Ifint, which trades on the Luxembourg stock exchange, and does deals with people like William Simon. Gianni Agnelli, whose personal worth is estimated to be at least $1.5 billion, is treading more softly.—**Tatiana Pouschine**

BENETTON FAMILY

Easy Come, Easy Go?

Shy and soft-spoken Luciano Benetton wears blue jeans even when appearing before a formal audience and keeps his gray hair shoulder

The Benettons

length. But there is nothing slovenly about Benetton Group, the $1 billion (sales) clothing company that he, his designer sister and his two younger brothers started 25 years ago in Treviso, north of Venice. In 1987 Benetton Group earned an impressive 10% return on sales. At recent stock market prices, the Benetton clan is worth upwards of $1.3 billion.

The Benettons are determined to continue growing rapidly. But can they? They say they'll have 900 franchised U.S. stores by 1990 (up from 760 today), and hundreds more outlets all over Asia, South America and even Eastern bloc countries. Yet even now the U.S. market seems saturated. Customers are complaining that the Benettons' once inexpensive clothing isn't anymore.

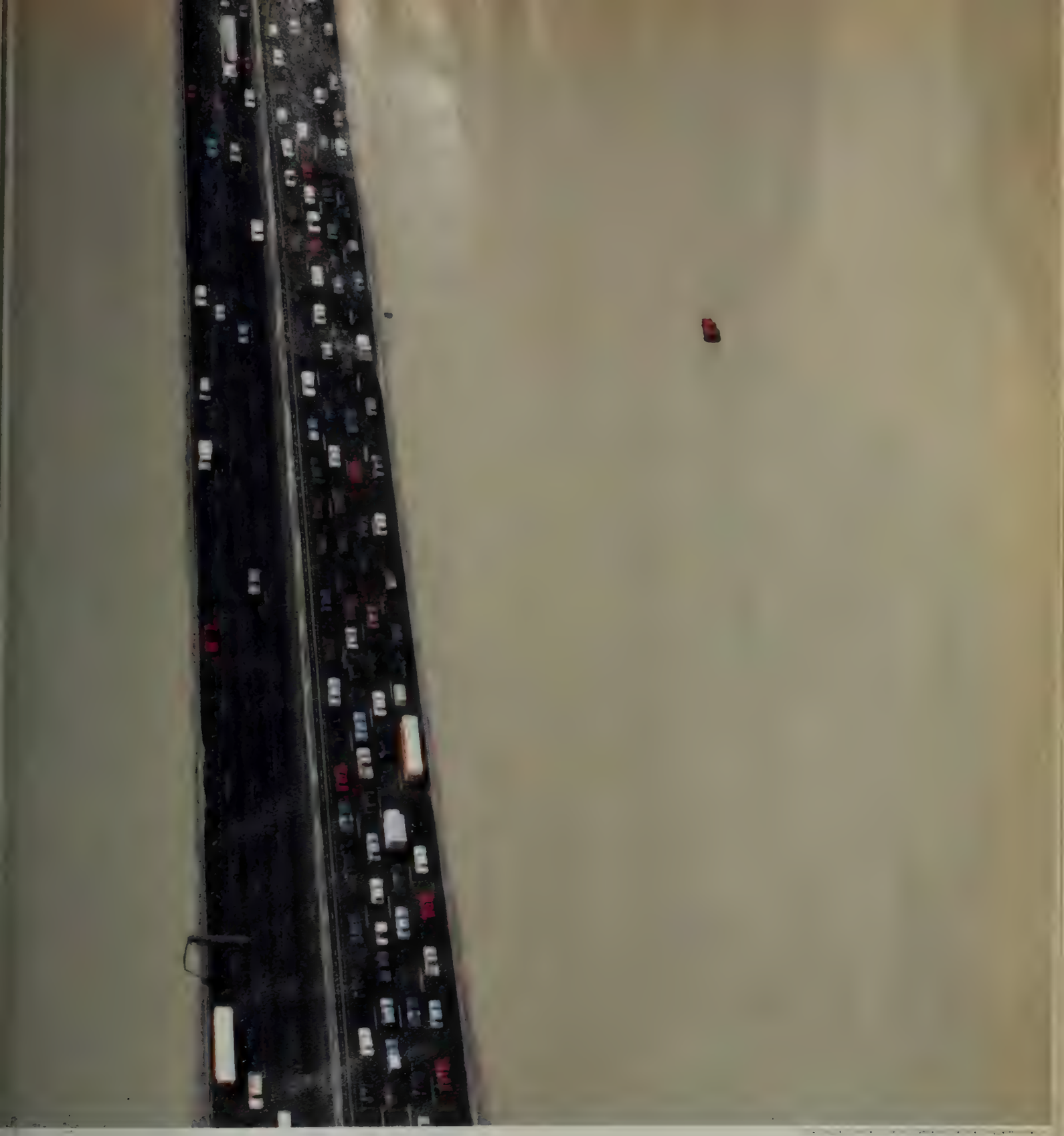
The Benettons currently are pushing into risky new areas: mail order, and introducing underwear, shoes and cosmetics. Last year the family even entered the competitive Italian financial services market, where much money is easily lost. Whether the Benettons will prove to be as good at holding on to their money as they were at making it remains to be seen.—**Tatiana Pouschine**

SALVATORE LIGRESTI

Bread And Wine And Baloney

Who is Salvatore Ligresti and how does he get away with so much? This mystery financier from Sicily accumulated what looks like a $1 billion fortune, mostly within a decade. But in 1987 magistrates seized 15 Ligresti office buildings on the outskirts of Milan. They said that Ligresti failed to procure the necessary building permits.

Then there is Ligresti's roughly 40% stake in SAI, one of Italy's largest insurance companies; this holding alone is worth almost $700 million. But in November Enrico Pianta, SAI's well-respected managing director, suddenly resigned. Soon afterward,



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Salvatore Ligresti

Raffaele Ursini, who had been arrested in 1978 for misuse of public funds, reportedly claimed that he never sold his 492,000 shares of SAI to Ligresti but only gave them as collateral for a loan. Now Ursini wants his SAI shares back.

Then, in December, Ligresti was sentenced to 22 months in prison on the building violation charges. Ligresti is appealing.

But this is Italy. In the midst of the uproar, Ligresti was appointed to the board of that very special, powerful and exclusive bastion of the Italian financial establishment, Mediobanca, the investment bank. According to the business magazine *Il Mondo*, Mediobanca may help Ligresti take public real estate holdings with a net worth estimated at more than $300 million.—**Tatiana Pouschine**

MICHELE FERRERO
Sticking To Sweets

Unlike Italy's other billionaires, Michele Ferrero has remained in only one business—candy—since taking over the family company in 1957. His Ferrero SpA, based in Pino Torinese, outside Turin, specializes in chocolates but has added other sweets to its line.

Ferrero's products, including Nutella, Mon Cheri chocolates and Tic Tacs, sell well in all major markets,

including the U.S., Germany and the U.K. Over half of the company's $1.8 billion in annual sales are generated outside Italy. Ferrero's test market is Luxembourg, where new candy might be tested for as long as ten years and even then may still never be launched internationally.

Michele Ferrero did make one attempt to branch out—and it turned out to be a disappointment. In 1985 he joined pasta magnate Pietro Barilla and media billionaire Silvio Berlusconi in a nasty public bidding war against Carlo de Benedetti for the government-owned food conglomerate SME. Apparently unable to decide between such politically powerful rivals, the Italian government reacted sensibly. It canceled the proposed sale.—**Tatiana Pouschine**

Switzerland

STEPHAN SCHMIDHEINY
How To Keep A Family Business Healthy

Heir to four generations of a privately held family industrial empire, Stephan Schmidheiny recently spoke to the Swiss-American Chamber of Commerce in Zurich about the traps family companies often fall into. Rule number one: Stay private, no matter how good that free capital looks. "The family-owned enterprise," said Schmidheiny, "is not subject to a kind of plebiscite, a factor which all too often—in the U.S., for example—pushes big public companies into decisions motivated by short-term interests."

Rule two: Keep profits working inside the company. Schmidheiny: "One prerequisite for the long-term success of a family business is that profits are not usually paid out in the form of dividends, but reinvested in the company."

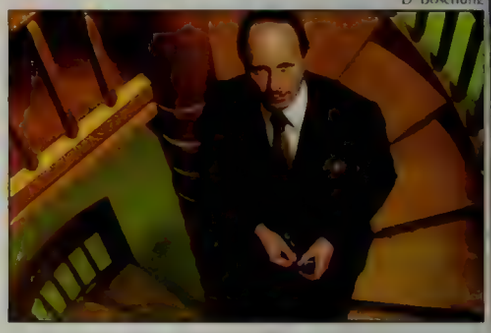
Rule three: Keep debt to a minimum. Stephan Schmidheiny's holding company, Hurden-based Anova, won't even issue bonds. If a family can't—or won't—subordinate short-term interests of current stockholders to distant future interests, then the family will one day be out of the business. It is as simple as that.

Rule four: Tightly link ownership and responsibility. Speaking of his own family's business, which started with a small brick factory in the 19th

RD2 Photo Reporter

Stephan Schmidheiny

D. Boschung



Thomas Schmidheiny

century, Schmidheiny said: "Family interests have been reallocated with each successive generation, to give one individual control of an independent part. . . . A family superholding has been consciously rejected in favor of the advantages inherent in smaller units where ownership and responsibility are in only one pair of hands."

All this has worked for the Schmidheinys. Stephan Schmidheiny's portion, based on construction and diversified into banks, real estate and retailing, is worth some $2 billion. His older brother Thomas runs Holderbank, the largest cement company in the world, and has interests in real estate and a technology manufacturer. Estimated worth, some $850 million. A third brother, Alexander, has little to do with the business. A cousin runs a smaller but still sizable piece split off in an earlier generation.

In his talk, Schmidheiny avoided the family business' worst enemy: incompetent heirs. Stephan Schmidheiny recently bought control of Landis & Gyr A.G., a Zug-based maker of electromechanical and electronics equipment. There are no suitable successors in Landis & Gyr's third-generation founding family, so the board approached him to take over. For their part, the Schmidheinys have, for four generations now, found new family members to take the assets to new heights. And they needn't address the question for quite a while. Stephan is only 41; his brother Thomas, only 43.—**Richard C. Morais**

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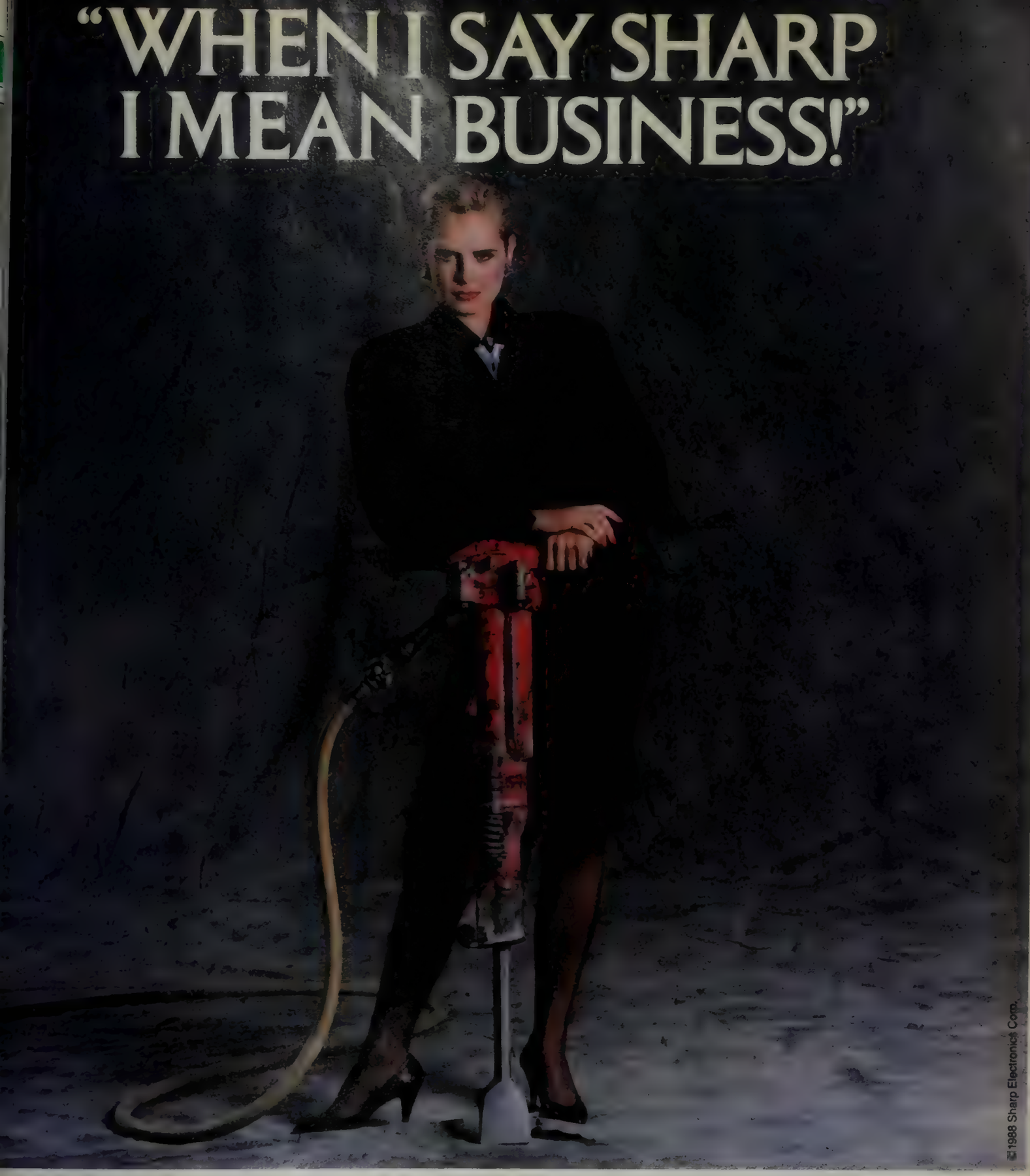

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HANS HEINRICH THYSSEN-BORNEMISZA
Problems Of The Rich And Famous

Baron Heinrich Thyssen-Bornemisza, 67, has a problem: what to do with his enormous private art collection, generally considered second in size only to the Queen of England's. In April the baron agreed with the government of Spain to house 600 to 700 important paintings (he has 1,400) opposite Madrid's Prado. But this is a ten-year loan, not a permanent home. And there is the Villa Favorita, on the shores of Lake Lugano, where the baron lives with his fifth wife, 47-year old Carmen (Tita) Cervera, Miss Spain of 1961. But he would need a big building, and that

Baron Thyssen-Bornemisza

would require reinforcing the property against the lake. "Otherwise the whole thing would fall in," explained a London spokeswoman.

One problem the baron doesn't have is keeping Thyssen-Bornemisza Group in the family. The baron's grandfather, August Thyssen, built Germany's Thyssen steel. Now the current baron's eldest son, Georg-Heinrich, 38, is taking over.

The young man starts from an elevated base. In 1987 sales of Monaco-based Thyssen-Bornemisza Group were $2.8 billion; net income (no doubt understated for tax purposes) was $34 million. An international conglomerate with interests in glass containers, farm and poultry equipment, information systems and more, the group now books 40% of its sales in the U.S. With his son running things, the baron can devote more time to dealing with his art problem.—**Lisa Scheer**

RDZ

Maja Sacher-Stehlin

RDZ/Photo Reporters

Paul Sacher

PAUL SACHER AND MAJA SACHER-STEHLIN
Mystery Buyers

Who bought the $200 million block of shares in Swiss pharmaceutical giant F. Hoffmann-La Roche when the block came up for sale this spring? The stock was in the form of bearer shares, with no names given. But Maja Sacher-Stehlin and her family are the obvious suspects.

Maja, 92, is the widow of Emanuel Hoffmann-La Roche, who in turn was the son and primary heir of the drug company's 19th-century founder. Maja and Emanuel had two sons and a daughter before Emanuel died in a car crash in 1932. Two years later, Maja married Paul Sacher, a conductor and patron of the musical arts; he is now 82. The family's principal visible sign of wealth is the Paul Sacher Foundation in Basel, which collects Stravinsky memorabilia and last year bought the archives of American composer Elliott C. Carter.

The Sachers and some other Hoffmann-La Roche descendants own some two-thirds of the scarce voting shares (16,000 exist), worth around $1.3 billion. A company spokesman denies that "the family" bought more bearer shares last spring—but he agrees that "friendly Swiss institutions" might have bought. It's still possible, however, the founder's descendants, acting through friendly Swiss family trusts, increased their holding in this profitable company last spring.—**Richard C. Morais**

United Kingdom

ROBERT MAXWELL
Tomorrow The World?

Born Jan Ludwig Hoch in Czechoslovakia in 1923, Robert Maxwell has turned a stake in a war buddy's tiny science and technical publishing company into Maxwell Communications Corp., a $1.5 billion (sales) media empire, including British Printing & Communications Corp., Europe's largest printer, and the Mirror Group Newspapers, as well as Pergamon Press, the company that started it all. Through Liechtenstein-based Pergamon Holdings, Maxwell, a self-proclaimed socialist, holds 51% of Max-

Clive Arrowsmith

Robert Maxwell

well Communications, worth $1.2 billion. Expect more of Maxwell in the U.S., as the media baron makes clear in an interview with FORBES in this issue.—**Claire Poole**

GERALD CAVENDISH GROSVENOR
Legal Theft

For Grosvenor, sixth Duke of Westminster, the Leasehold Reform Act is legal theft. Passed by a Labor government in 1967, the act gave tenants the right to purchase the land underlying their residences, usually at a discount to market. By 1990 about a third of the young (36) duke's 100 acres in Mayfair—"a place of vice and impurities" when the family acquired it in 1677—should convert back to residential use from the temporary office designation the property received after World War II. More leaseholders will invoke their Leasehold Act rights.

But there are other opportunities. Grosvenor International Holdings, a $1.6 billion (assets) property investment group, has interests in Canada,

Homer Sykes/Camera Press

Gerald Cavendish Grosvenor

Australia and the U.S. In California GIH has a 220-acre business park in Fairfield, 615,000 square feet of high-tech and R&D space in Silicon Valley and an office building in Santa Monica. In Mesquite, Tex.; Eugene, Ore.; and Northbrook, Ill. The company owns large regional shopping centers, and it has a 620,000-square-foot commercial building in Honolulu.

Through Atlantic Freeholds, a partnership between Grosvenor and two U.K. pension funds, the duke bought the Olmsted Building in Washington, D.C. last year, and has a Washington office to look for more East Coast properties. Altogether, Westminster's net holdings total nearly $3 billion—the British bit bulking less all the time.—**Claire Poole**

DAVID SAINSBURY
Olde Englande, New England

Quietly and cautiously, Britain's $7 billion (sales) J. Sainsbury Plc. builds its New England foothold. In 1983 the very profitable supermarket chain began buying into Shaw's Supermarkets Inc., a $1.2 billion (sales), 50-store chain in New England. Last July it bought the rest and made Shaw's a subsidiary. Through Shaw's, it recently added Iandoli, a Worcester, Mass. chain of 10 supermarkets. At home, meanwhile, Sainsbury's has 279 stores and opens 18 to 20 new ones a year, generally outside the heavily saturated, high-priced London market.

Topham/The Image Works

David Sainsbury

Whether Sainsbury's U.S. expansion will accelerate will be up to David Sainsbury, who holds 25% of the stock. In November his cousin, Chairman and Chief Executive Sir John Sainsbury, 60, stepped aside while David, 47, advanced from finance director to deputy chairman. Betting is he will go on to chairman, making him the sixth Sainsbury to head the company. Together, the family owns over 50% of the company; their block of holdings was recently worth around $3 billion.—**Claire Poole**

SIR JOHN MOORES
He Can't Run It From The Grave

Sir John Moores

London analysts are buzzing that Liverpool's Littlewoods may finally go public. The rumors make sense. John Moores, now Sir John, founded the company in 1923 as a betting shop for soccer games and built it into a low-priced dry goods retail chain and mail-order house. Moores (plus a few relations) still owns virtually all the company, conservatively worth $1.6 billion.

But Moores is now 92. While none of his family has proved willing or able to run the company, two outsiders have been doing beautifully. In 1982 Littlewoods was going downhill fast. Moores brought in John Clement, also chairman of Unigate, and Desmond Pitcher, previously managing director of Plessey Telecommunications. They spruced up and expanded the stores, computerized the catalog business and added catalog shops. They have also followed Sears' and J.C. Penney's lead and ventured, cautiously, into more upmarket specialty areas like interior design centers.

All this helped Littlewoods' profits rebound smartly, to $136 million (pretax) last year, on revenues of $2.6 billion. How better for Sir John to reward Clement and Pitcher and keep them at the helm than by giving them a significant stake in a publicly traded company?—**Claire Poole**

SAMUEL, LORD VESTEY AND EDMUND VESTEY
Slaughtering Margins

As aggressive British grocers like the Sainsburys prosper, the Vestey brothers are getting squeezed. The Vesteys own a vertically integrated meat empire that was started by their grandfather in the last century. Today the empire stretches from vast cattle operations in Argentina to the 1,400-outlet J.H. Dewhurst Ltd., Britain's largest chain of retail butchers. In between are cold storage warehouses, shipping assets, insurance subsidiaries and a whole lot more. There are some 200 private companies under Union International Plc., which in turn is held by Western United Investment, the Vesteys' $2 billion (estimated assets) holding company controlled by the brothers through joint ownership of two £1 "management shares" each.

But Sainsbury's and other supermarkets' meat departments in the U.K. are beginning to steal customers from the somewhat higher-priced butcher shops like Dewhurst. The Vesteys could, of course, begin supplying the supermarkets on a greater scale. But that would slaughter their downstream margins.

Still, don't cry for the Vesteys. If all else fails (which it won't), they have a great deal of valuable London real estate to manage.—**Claire Poole**

Topham/The Image Works Times Newspapers Ltd

Samuel, Lord Vestey and Edmund Vestey

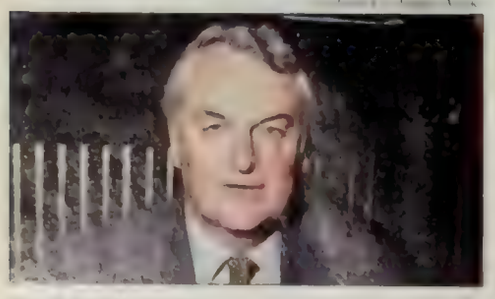
SWIRE BROTHERS
Comrade Partner

The Swires, China hands for five generations, do not fear Beijing's Communists. Swire Pacific was founded by their ancestor early in the 19th century. Today the group is a property, shipping, airlines (54% of Cathay Pacific), Coca-Cola bottling and trade combine that is still 28% owned by Sir Adrian, 61, and brother John, 56. Their holding is currently worth $1.25 billion.

Hong Kong will come under Beijing's administration in 1997, and many capitalists are selling out. The Swires are buying. Swire is building—and will own—a two-phase real estate project called Pacific Place. Phase I, totaling almost 1.5 million square feet of office and hotel space and 300,000 square feet of shopping space, will be completed late this year, but 90% of its office space was already let by last May. Jardine Fleming Securities estimates Swire's rental income will hit $1 billion in 1989. Phase II will be completed by 1991.

The group will also bid, with Browning-Ferris, on waste disposal contracts, and has joined a Hong Kong cable TV consortium. The most interesting venture of all, however, is Swire's bid to buy property in Shanghai. The bid clearly signals the brothers' belief that Beijing's Communists will allow private ownership and enterprise to thrive.—**Claire Poole**

John Swire



Adrian Swire

West Germany

OTTO BEISHEIM
Germany Needs More Like Him

Otto Beisheim was an assistant manager in a wholesale electric firm when he visited the U.S. in the early 1960s. Here he admired the inexpensive distribution system of wholesale supermarkets—no-frills cash-and-carry businesses that sell consumer goods in bulk to retailers.

Beisheim was excited. In 1964, age 40, he quit his job and opened Metro-Markt. Two powerful German industrial families and Holland's Fentener van Vlissingens *(which see)* invested in Metro in 1967 and 1968. Their capital and Beisheim's entrepreneurial genius has turned Metro International A.G., based in Zug, Switzerland, into an $11 billion (estimated sales) empire, with over 103 outlets in 13 countries (at least 40 in West Germany). Its warehouse-style stores stock a limited—but very modestly priced—line of food and household items.

For a while, Beisheim was able to get around West Germany's silly *Ladenschlussgesetz* law, which requires retailers to close at 6:30 p.m. on weekdays. As a wholesaler, Beisheim kept Metro open at least until 9 p.m. and sold to anyone carrying a special Metro card. The card, however, was readily available to German consumers—until 1985, when an irate West German Retail Trade Association sued Metro for "illegal and unfair" business practices.

Beisheim is new on our list. His estimated 23% holding in Metro is worth $688 million. But he has other holdings. These include office machine and typewriter manufacturer Pelikan A.G., which Beisheim took over in 1983 and floated in Switzerland in 1986; his 60% is worth $53 million. He also owns 33.3% of Kaufhof A.G., a large West German department store group; this stake is worth $266 million.

Now 64, Beisheim is a recluse. He is said to communicate with his senior executives by facsimile machine. Married but childless, he reportedly shuttles between residences in Lugano, Switzerland, Rottach-Egern, West Germany and Bal Harbor, Fla. It is unclear what will happen to Metro after Beisheim.—**Lisa Scheer**

ALBRECHT FAMILY
Very Quiet Money

A couple more newly uncovered billionaires, brothers Karl and Theo Albrecht, have operated for a long time on a principle of Karl's: "Poor people have to buy cheaply, rich people like to." They began applying this after World War II, from their mother's grocery in Schonebeck, a mining suburb of Essen. Today Karl, 67, and Theo, 65, own Aldi's (for Albrecht Discount), West Germany's largest food chain. The $10.8 billion (1987 sales) discount empire runs some 2,000 supermarkets and employs more than 20,000. The family net worth, including outside interests, is estimated at over $1.2 billion.

The brothers found their present concept in the early 1950s, when they stripped their stores of decoration, advertising and expensive equipment, limited the stock to about 300 quick-selling items, and sold at prices as much as 20% below the competition. To cut costs to—and into—the bone, the Albrechts do obvious things like eliminating fresh foods, an expensive line—and less obvious things, like eliminating branch managers' telephones and telling the managers to use the closest pay phone.

DPA

Theo Albrecht

In 1971 kidnappers grabbed Theo Albrecht and received DM7 million ransom. He was released 17 days later. Since then the brothers have, understandably, kept very much to themselves. They have also subdivided the business into 32 legally independent regional companies, each of which is too small to be required to disclose financial statements.

Like other German billionaires, the brothers have expanded outside the confining economy of Germany, but

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less aggressively than some. They own the $100 million (estimated sales) Benner Tea Co. of Iowa (now known as Aldi-Benner) and 10.92% of $2.2 billion (market capitalization) Albertson's Inc., a U.S. supermarket chain based in Boise, Idaho. On his own, Karl Albrecht owns DM1 billion (sales) Hofer Markets in Austria; Theo owns the Lansa stores in Belgium and the Combi chain in the Netherlands. The Albrechts' success, in short, is as impressive as it is quiet.—**Lisa Scheer**

QUANDT FAMILY

The Yakuza Factor

Herbert Quandt (who died in 1982) probably paid under $1 million for 26% of BMW in 1959. Today the Quandts, led by Herbert's widow, Johanna Quandt, 63, own a 66% (currently worth $2.9 billion) block of the company.

Future appreciation, however, will be harder to come by. Between the aggressive Japanese carmakers and the weak dollar, BMW's U.S. market is under pressure. Lately BMW has

Herbert Quandt

been going where the new money is: Japan, where it has had considerable success despite tariffs and sundry nontariff barriers. Among the latter is the fact that BMW's high-priced cars are so identified with Japan's *yakuza*, or gangsters, that some restaurants refuse to let BMWs park out front.

Taking some of their eggs out of the luxury car market basket, Mrs. Quandt and her family are looking into things like genetic engineering and homeopathic medicines. Last July they visited Minneapolis, home of DataCard Corp., for which they paid $174 million cash in August. DataCard is the world's largest maker of plastic credit and bank cards, which the Quandts plan to sell to Europeans, who still lag Americans in using plastic money. Apparently the Quandts didn't like what they saw. In February they forced out the American chairman. —**Lisa Scheer**

PRINCE JOHANNES VON THURN UND TAXIS

American Beachhead

Comes now another German billionaire—this one armed with his sensual young (28) wife, "Princess TNT"—looking for U.S. investments. In December, in a deal put together by Salomon Brothers, Prince Johannes von Thurn und Taxis, 62, bought 37% of Philadelphia investment banker Butcher & Co. The prince wants Butcher to advise his private bank (Fürst Thurn und Taxis) on U.S. stock, real estate and venture capital opportunities. Makes sense. The bank's clients, including the prince and princess, are underweighted in investments outside Germany, at a time when the deutsche mark is strong. The prince, says spokesman Manfred Heiler, is scouring the southeastern states for office buildings and shopping centers.

Meanwhile, back in the homeland, $333 million (sales) Doduco, based in Pforzheim, is probably the largest part of the prince's empire. Doduco makes industrial electronic components. Other businesses include breweries, farmland and forestry, metals trading and office buildings. Total net worth of this fortune that began with a private mail service initiated by Franz von Taxis in 1490? "I really don't know," said the prince in a *Connoisseur* magazine interview in January. "The family has owned 18 castles, and in some of them they're still making inventories started in the 17th century." A reasonable estimate is $1.5 billion to $2 billion.—**Lisa Scheer**

"Taxiboy" and "Princess TNT"

REINHARD MOHN

Investing For The Long Term

If the world's biggest media conglomerate, $6.4 billion (revenues) Bertelsmann A.G., were publicly traded, the Mohn family's personal worth would probably be considerably less this year than last. In 1986 Bertelsmann paid $330 million for the record division of RCA, which was losing money at the operating level, and two weeks later bought Doubleday, which was facing declining sales in a competitive market, for $475 million. Claire Kent, an analyst of German equities with Morgan Grenfell in London, says those acquisitions and the falling dollar squeezed Bertelsmann's

Reinhard Mohn

margin from 4.3% to 2.3% in 1987, when earnings fell to $115 million.

But Bertelsmann isn't publicly traded. Reinhard Mohn, 68, and his family own 89.3% of the company; another publisher (Gerd Bucerius) holds the balance. Mohn can and does invest for the future, temporary earnings swings be damned. Mark Wössner, chief executive of Bertelsmann, predicts that by 1990 the U.S. acquisitions should be contributing $120 million in operating earnings. Mohn and family are still worth a minimum $2.2 billion.

Mohn, who spent three years at a POW camp in Concordia, Kans. in WWII, resurrected his family's pub-

lisher of hymnals and prayer books in the 1940s and pioneered in book clubs in the 1950s. Book clubs are still Bertelsmann's major growth engine. But the weak dollar, stagnating markets in Europe and stiff German anticartel laws will encourage Mohn to make more acquisitions outside Europe, especially in the U.S.—**Lisa Scheer**

RUDOLF AUGUST OETKER AND FAMILY

Rudolf Oetker's Soft Shoe

Herr Oetker is something of an eccentric. He eschews fashionable neckties, takes the train to his Bielefeld office, and wears 20-year-old shoes. But don't be misled. Oetker is the supervisory chairman and, with his family, owner of Oetker Group, a huge brewing, food, insurance and shipping conglomerate. Revenues in 1986 were $1.6 billion, cash flow $138 million. Rolf Muhlmann, spokesman for the group, admitted that revenues are "a bit understated," since a bank, for example, is not included in consolidated statements. Analysts figure the Oetker clan's holdings are worth at least $2 billion. Oetker officially retired in 1981 at 65 but still advises the business.

Oetker's family was killed in a bomb raid in World War II. Starting in 1944, at age 28, he rebuilt the family food business, diversifying along the way into breweries, banks and insurers, among other things, and amassing an impressive commercial shipping fleet. As Europe prepares for integration in 1992, Oetker plans to invest in food businesses in southern Europe, where food is produced at low cost. Oetker Group's $778 million (sales) food division, led by his oldest son and likely heir, 44-year-old August, is looking for joint ventures in France, Spain, Italy and Turkey. Last year the group bought 70% of Genoa-based Industria Ligure Té (Ilté), a small tea company. Now 72, Rudolf Oetker gets a lot done in his comfortable old shoes.—**Lisa Scheer**

Wolf P. Prange

Rudolf Oetker

BRENNINKMEYER FAMILY

Almost Invisible—Almost

Few rich people like the spotlight turned on them, but the Brenninkmeyer clan's penchant for secrecy is legendary. Said to number several hundred—about 50 seem to run the family businesses—many family members live together on a supersecure estate in Germany. They are said to be devout Catholics whose sons are expected to go into the 147-year-old business. Deeply fearful of kidnappers, the family sent two of its daughters to Boston University under assumed names.

A little more is known about their decentralized business dealings. Amsterdam-based Intercena runs the Brenninkmeyers' C&A chain in Holland. Amcena Corp., a New York holding company for Brenninkmeyer NV, represents family interests in the Howland-Steinbach department store chain; Miller's Outpost, a specialty retailer in California; and Maurice's in Minnesota, among others. Total U.S. stores now: around 400. There are many more stores in Britain, Spain, Brazil and other countries, as well as a web of real estate companies.

Here's some light: In West Germany the Brenninkmeyers' 144-store chain must report figures. In 1986 (1987 figures are not yet available) the German C&A department stores reported earnings of $117 million on sales of $3.5 billion. It's safe to estimate that the German segment alone is worth some $3 billion.

HERZ FAMILY

Max Herz' Bright Boys

When Max Herz died in 1965, he left behind a coffee mail-order and retail business, his widow, and children, including two sons, Günter and Michael, who assumed leadership of the company in their 20s. The boys lacked experience, but not energy and creativity.

By 1983 Günter Herz, now 47, and brother Michael, 44, had expanded their father's Tchibo Frisch Röst Kaffee Max Herz K.G. into 500 stores and added a new concept: 25% of the Hamburg-based coffee chain's stores were stocked with noncoffee goods, from bottle openers to surfboards, tennis rackets to bicycles, all sold cheaply. A consortium of establishment consumer electronics retailers and manufacturers led by Sony and Philips NV tried to halt Tchibo's aggressive growth by winning an injunction against the upstart chain for selling Japanese VCRs at cut-rate prices. The move failed. Last year sales of Tchibo Frisch Röst Kaffee A.G., the retail part of the group, reached $1.6 billion.

In 1970 the Herz brothers tried to buy a majority stake in Kaiser's Kaffeegeschaft, a foodstuffs chain, but they failed. In 1974 they bought 27% of $1 billion (present market cap) Beiersdorf A.G., known primarily for its Nivea brand hand and skin lotions. In 1980 they bought 53% of Reemtsma Cigarettenfabriken GmbH. Germany's second-largest cigarette company (Peter Stuyvesant brand), Reemtsma also owns breweries: Tuborg of Denmark and Bavaria St. Pauli's, among others, and recently reported it had $389 million in cash for more acquisitions.

The brothers Herz have also acquired a harness racetrack in Hamburg-Farmsen, a trotter stud farm in Schleswig-Holstein and real estate in Canada.

In 1986 the Tchibo Group reported net earnings of only $54 million on sales of $3.3 billion. Like most European family businesses, this one is run with the tax collector in mind. In all likelihood, Tchibo is worth at least $1 billion.—**Lisa Scheer**

HENKEL FAMILY

Hanging On

A senior Henkel family member is said to have scolded a young female relative and shareholder who wanted a bigger dividend from the family company, Henkel KGaA. "You have one fur coat," the elder observed. "What do you want with two?"

It's hard to say how the fourth-generation Henkels will do (not well, one suspects), but the third, and current, generation has shown lots of energy and imagination. Chemist Hugo Henkel, son of the founder, dramatically changed German markets in 1907

with Persil, a self-acting detergent that eliminated scrubbing. Henkel KGaA is now one of the world's largest detergent and specialty chemical producers. Last year Henkel earned $162 million on $5.1 billion sales.

Konrad Henkel, the founder's grandson and supervisory chairman, has used the dollar's periodic weakness well. Henkel KGaA bought 26% of Loctite Corp., an adhesives manufacturer, in 1985. He increased Henkel's stake in Clorox from 23% to 24%, bought a metal finishing company from Ford and a chemicals operation from Occidental Petroleum. Joint

Wolf P. Prange

Konrad Henkel

ventures have put Henkel into Japan and Korea.

The Henkel clan now approaches 70 in number. To get more liquid, the Henkels sold the public about one-third of their company, in nonvoting stock, in early 1986. They are said to plan on holding their voting stock—worth over $2.1 billion—until at least the year 2000. Then the spoiled fourth and fifth generations can buy all the fur coats they want.—**Lisa Scheer**

ERIVAN HAUB

Pizza Mit Schnitzel, Bitte

In West Germany everyone knows Tengelmann, a 3,000-store food chain. Most Dutch consumers know Hermans Groep, one of Holland's largest food chains, as most Americans recognize the A&P name. But does anyone know Erivan Haub, the publicity-shy owner of Tengelmann, Hermans Groep and 52% of A&P? Haub is the great-grandson of Wilhelm Schmitz-Scholl, a merchant from Mülheim who founded Tengelmann in 1876 as a wholesaler of coffee, cocoa and tea. According to Baring Securities' Gebhard Klingenstein, $16.6 billion (1987 consolidated sales) Tengelmann is now worth at least $[illegible] billion. Erivan Haub, 56, is its

Wolf P. Prange

Erivan Haub

sole owner.

Like many West German capitalists, Haub has long been expanding abroad, and profitably so. A&P lost $323 million between 1979 and 1982. But under James Wood, an Englishman recruited by Haub from Grand Union in 1980, it has turned around, and last year earned $103 million on sales of $9.5 billion. Haub sees opportunity at home, too. In a joint venture with PepsiCo, Tengelmann is now opening a series of Pizza Huts in West Germany.—**Lisa Scheer**

FRIEDRICH KARL FLICK

"Muck," "Mick" And Mire

Tainted by scandal and threatened with litigation by his own family, Friedrich Karl Flick, F.K.F. to his friends, can still take some pride from the fact that, at over $3 billion, he is one of Europe's richest men.

Flick's nephews, Gert Rudolf and Friedrich Christian—respectively, Muck and Mick to the popular press—are threatening to sue F.K.F. for DM1 billion ($556 million) over his 1986 sale of the family business empire, Friedrich Flick K.G. (named after his father, the founder) to Deutsche Bank for DM5.3 billion, or over $3 billion at the time. The business was sold following revelations of illegal payments of laundered cash to politicians for tax favors. The "Flick Affair" also brought down West Germany's economics Minister and earned F.K.F. the tag "Paymaster of the Republic." Muck and Mick reportedly received DM308.5 million in 1975 for their portion and another DM225 million in 1985.

Strangely quiescent then, they now clamor for a redistribution of the Flick inheritance. Stay tuned.—**Lisa Scheer**

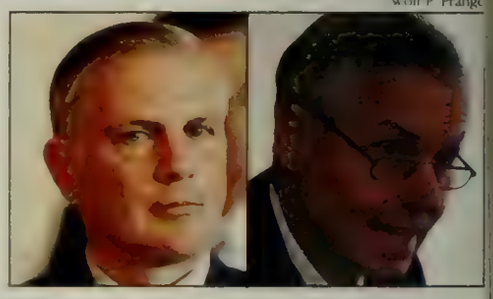
WILHELM VON FINCK
AUGUST VON FINCK

Good Career Choice

August von Finck once said he would rather have been a farmer than a banker, but banking has been good to him. August, 58, and his brother Wilhelm, 60, own Munich's Merck Finck & Co. Possibly the second-largest private bank in Germany, it specializes in investment banking and loans to medium-size and large Bavarian firms, and is joining London insurance broker Sedgwick Ltd. to offer customers trade insurance.

Grandfather Wilhelm von Finck

Wolf P. Prange



Wilhelm and August von Finck

founded the bank in 1870 and invested in Germany industry—and in land. The family owns 10,000 acres of farm and forest land around Munich.

Mostly through Merck Finck & Co., the family owns a majority of brewer Würzbürger Höfbräu, two champagne producers, a food and furniture firm, a nuclear power company (Isar Amper Werke A.G.) and 5% or so of West Germany's largest insurance companies (Allianz Insurance and Münchener Rückversicherung). The family also owns 90% of brewer Löwenbräu A.G. of Munich. In March, August von Finck sold the family's 25% of Hochtief, a construction firm, on the Frankfurt Exchange, for $422 million. That plus other holdings are estimated to be worth at least $2.5 billion.—**Lisa Scheer**

SCHICKEDANZ FAMILY

Mail-Order Billionairess

Grete Schickedanz is keeping her investments at home. With daughter Madeleine Bühler and stepdaughter Louise Dedi, Grete owns Fürth-based Quelle. Quelle is Europe's largest mail order house (1987 revenues, $6 billion), with interests in everything from banks to travel services. The hefty Quelle catalogs—16 million are mailed twice yearly—offer 45,000 items from garden tools to fashion accessories.

Last year Quelle bought a majority of $333 million (sales) Sinn A.G., a Cologne-based department store chain. This year it is investing $194 million to refine, among other things, its catalog product mix and reformat more than 20 existing Quelle department stores for German consumers who are into more upmarket, trendy merchandise.

Gustav Schickedanz started Quelle

DPA

Grete Schickedanz

in 1927, figuring German farmers would embrace mail order; Grete, now 76, was an early employee. He invested in a paper company, banks and breweries during the 1930s. Wiped out in World War II, Grete rebuilt from a small textile shop. Gustav died in 1977. The family company, Gustav und Grete Schickedanz Holding K.G., owns the paper company, brewer Patrizier Bräu, insurance and leasing companies and valuable real estate in Bavaria. The Schickedanz' net worth: at least $1.2 billion.—**Lisa Scheer**

VON OPPENHEIM FAMILY

Bankers' Bicentennial

The Oppenheims, who operate through their Cologne-based bank Sal. Oppenheim jr. & Cie, enjoy a reputation for shrewdly judging risk. The bank was founded in 1789 by 17-year-old Salomon Oppenheim Jr., who became the first Jew elected to Cologne's Chamber of Commerce. The Nazis did not kill the Oppenheims (under Third Reich laws they were only one-quarter Jewish) but did arrest two family members in 1944 as suspects in the assassination attempt on Hitler. In 1938 the Oppenheims were forced to rename the bank Pferdmenges & Co. after a partner who shepherded the family's assets. The

Alfred and Manfred von Oppenheim

bank's original name was reinstituted in 1947. It is now run by Alfred von Oppenheim, 54, his cousin Manfred von Oppenheim, 64, and a relative by marriage, Matthias Graf von Krockow, 39. Alfred is also president of the Düsseldorf Stock Exchange.

In 1987 total group assets were DM12.6 billion ($7 billion), and the family is worth maybe $2 billion. Where are they putting their, and their clients', money? Into high-yielding European bonds, especially foreign bonds denominated in deutsche marks. All foreign bonds are exempt from a proposed German 10% withholding tax on interest income that would go into effect January 1989, "a very important factor for our clients," comments bank spokesman Walter Damm.—**Lisa Scheer**

WERHAHN FAMILY

All Quiet On The Werhahn Front

Very little is known about the Werhahn family of Neuss. The Werhahns like it that way. Here's what is known: Bankhaus Wilhelm Werhahn K.G. (1986 external sales, DM3.62 billion, or $2 billion), privately owned by the Werhahns, acts as a holding company for the family interests. These include 10% of the Hoesch steel company; 7% of RWE, one of West Germany's largest electric utilities; and 50% of Strabag Bau A.G., a German construction group.

Herbert Werhahn

The Werhahns also have holdings in some 70 domestic companies, plus a number of foreign and minority holdings. Last October they sold $1.1 billion (sales) Co-op, a Frankfurt-based food retail chain, to a group of Swiss banks. All in all, the very private Werhahns' visible holdings are conservatively estimated to be worth $2 billion.—**Lisa Scheer**

Austria

SWAROVSKI FAMILY

Rhinestone Billionaires

For four generations, Austria's Swarovski family, new this year on the list, has dominated the world's trade in rhinestones. Founded by Daniel Swarovski in 1895, D. Swarovski & Co. today accounts for 75% of the world volume in glass stones and crystals. What with rhinestones hot

Kevin Galvin

Daniel and Manfred Swarovski

again in the fashion world, the Swarovskis say the company nets 15% aftertax on revenues of $1 billion.

D. Swarovski & Co. remains a paternalistic company that benignly governs its pleasant little Tyrolean company village of Wattens. The Swarovskis spend 6% of revenues on R&D and as a result produce what most experts consider to be the world's highest-quality glass and leaded crystal figurines. The company is owned by 31 family shareholders, all descended from the founder, Daniel Swarovski, and unofficially led by Gernot Langes-Swarovski.

To further buffer their revenues against the fickleness of fashion designers, the Swarovskis are now branching out into retail. They have opened fashion jewelry stores in Australia, England and Paris, and have

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created their own brand-name lines of costume jewelry. When first peddling Silver Crystal in the early Eighties, the Swarovskis blundered by selling their exclusive-image figurines through too many nonexclusive outlets. But if history is any guide, the family will learn and profit from these early mistakes.

(For more on the Swarovskis, see FORBES, *May 30.*)—**Phyllis Berman**

Holland

ANTON DREESMANN
Paving The Way

Now 65, Anton R.C. Dreesmann has suffered several strokes. Yet still he builds. Since January, Vendex International, the Dreesmann family's $8.2 billion (sales) company, has picked up drugstore chain Drogasil in Brazil, a stake in B. Dalton booksellers and its partner Barnes & Noble in the U.S., a furniture chain in Belgium and a travel firm in Holland. During last October's crash Vendex bought over half a million nonvoting shares of Arkansas-based Dillard Department Stores.

Robert Sweers, head of institutional research for Banque Paribas Nederland in Amsterdam, values Vendex International at some 2.5 billion guilders, or $1.2 billion.

ANP

Anton Dreesmann

But Dreesmann, who once taught economics at the University of Amsterdam and is still called professor, is aware of his mortality. With no one in the family to run the company, Dreesmann will take it public by 1990. His handpicked successor will be Arie van der Zwan, former head of a Dutch investment bank and member of a left-wing think tank in the early 1970s. Van der Zwan, like Dreesmann, is a university economics professor and is recognized as a brilliant intellectual.—**Lisa Scheer**

FENTENER VAN VLISSINGEN FAMILY
Survivors

New to our list this year, the three Fentener van Vlissingen brothers share a fourth-generation Dutch fortune easily worth a billion dollars. Paul, 47, is chief executive of SHV Holdings NV, an international energy company with a wholesale consumer-goods arm. John, 49, runs Noro Group, a Dutch investment fund with $2.4 billion under management. Flint is run by Frederik, 55.

This is fairly old money. The fortune grew out of a coal-trading cartel founded in turn-of-the-century Holland by two Dutch families who intermarried and ran the business together for 50 years. Great-grandfathers Frederik Fentener van Vlissingen from Amsterdam and Hendrik Adriaan van Beuningen, a railroad official in Utrecht, fueled Holland's industrial revolution by importing coal from Germany's Ruhr Valley.

Alas, the van Vlissingen/van Beuningen profits also fueled the envy of the German Coal Syndicate, whose exclusive license was making the Dutchmen so rich. The syndicate demanded, and got, 49% of SHV Holdings. But the wily Dutchmen had already taken the precaution of diversifying, investing in Holland's awakening industrial companies and holding those investments outside of the coal company.

The growing fortune survived World War II. But a more serious threat was interfamily quarreling that flared in the third generation. In 1954 the founders' families finally split: The van Beuningens got Unitas, while the Fentener van Vlissingens took SHV. The Fentener van Vlissingens clearly cut the better deal. They moved from waning coal to waxing oil and gas, and then into a consumer goods wholesaling operation. Makro, as it is called, now accounts for three fourths of SHV's sales ($4.5 billion) and almost two-thirds of assets ($2.3 billion), and is spreading beyond Europe to Brazil and Argentina.

ANP

Paul Fentener van Vlissingen

The Fentener van Vlissingen family is now moving deeper into oil, spending some $150 million to extend their interests in the North Sea's rich Brae field. Brae is expected to reach full production in the 1990s. Having survived two world wars, inheritance taxes and family quarrels, this fortune seems destined to grow well into the next century.—**Lisa Scheer**

France

BOURIEZ FAMILY
Ici On Parle Wal-Mart

New to our list this year, the Bouriez family, led by Philippe Bouriez, 54, likes to understate the success of the family retailing company, Cora-Révillon. Talk about success might merely attract more competitors. Bouriez insists that Cora-Révillon's sales are about $5 billion. But industry observers say $6 billion or $7 billion is closer to the truth. Even at Bouriez' figure, the family is worth an estimated $1 billion.

The Cora part of the business operates supermarkets and smaller-scale superettes; these make Cora-Révillon a major French food retailer. Cora also owns a number of hypermarkets, emporiums selling everything from food to clothing to lawn mowers under one roof. The Révillon part of the Cora-Révillon name, meanwhile, comes from the family's world-famous fashion fur house.

Do furs, artichokes and lawn mowers mix? In this case they do. Philippe Bouriez' Franco-Belgian ancestors founded the chain in the 19th century. In effect, he piggybacked on someone else's success, licensing the right to use the respected Carrefour name. Why did Carrefour let Bouriez in? Because Carrefour was expanding rapidly in France's larger cities, whereas Bouriez—like Sam Walton and his Wal-Mart stores in the U.S.—targeted smaller towns. Once Bouriez' stores were opened, they were relatively safe from competitors, since the towns

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The English revere tradition. That's why Jaguars have always been swift and surefooted, and as elegant as a 400 year-old manor house.

Bouriez chose were generally too small to support more than one big retailer. By 1975, when Philippe, Michel and Jacques took over operations from their father, André, the stores were so well entrenched that the brothers (and their two sisters, who inherited equal shares) dropped the

Deliluc/L'Expansion

Philippe Bouriez

Carrefour connection and put their own name, Cora, on their stores.

There is also a buccaneering side to the family. Elder brother Michel Bouriez, 55, has been charged with obtaining a building permit through bribery. He spent three weeks in jail on that charge, although he has not been convicted and the case is still under investigation.

But the family also enjoys a reputation for capable management and intelligent diversification. In 1981 the Bouriez family acquired Révillon for 1.2 billion French francs ($200 million). Other small businesses include Editions Mondiales, a publisher of French pulp romance magazines, and a small perfume business. In 1986 Philippe bought 2% of TF1, the popular TV network controlled by compatriot Francis Bouygues and Italy's Silvio Berlusconi *(which see)*.—**Diana Fong**

PEUGEOT FAMILY

The Last Major Family Car Company

France's $19.5 billion (sales) Peugeot S.A. is the world's last major automobile maker still absolutely controlled by its founder's descendants. A few dozen Peugeots today own 26% of the company, but their shares enjoy double voting rights. Peugeot S.A.'s current market value: $5 billion, up from $3.7 billion at the end of last year. Thus has the family earned a place on this year's billionaires roster.

The Peugeot fortune traces to the

T. Ribolowsky/R.E.A./Picture Group

Pierre Peugeot

Roland Kalvar/Magnum

Roland Peugeot

18th century and a metal foundry in France's Montébeliard region, near the Swiss border. Hardworking Huguenots with Swiss banking connections, the Peugeots became renowned for quality products ranging from coffee grinders to bicycles. Armand Peugeot—the great-granduncle of Bertrand, Roland and Pierre—believed in the automobile. Since producing their first car in 1899, the Peugeots have produced 19 million to date.

In the 1970s the company nearly sank. The purchase of Citroën, another French automaker, was a mistake because Citroën was itself in bad shape. Then came another bad acquisition: In 1978 Peugeot-Citroën bought Chrysler Europe just before more fuel-efficient Japanese cars became popular. Meanwhile, the Peugeot reputation for quality had faded. If that weren't enough, the French government and France's Communist-dominated autoworkers union favored state-owned Renault in an ugly effort to drive private Peugeot under. But the story has a happy ending. Jacques Calvet was voted in as chairman by the family in 1982. Calvet took strikes, fired unproductive workers and, by 1985, restored Peugeot to profitability. Now the leader in France with 32% to 33% of the market, Peugeot is well positioned for 1992's European market, where it is third after Volkswagen and Fiat.

Unlike Schlumberger and Michelin, where family members are forbidden to work, Peugeot is loaded with Peugeots. First cousins Bertrand, Roland and Pierre Peugeot are the principal shareholders and all are Peugeot executives. But it is no family featherbed. "The Peugeot heirs must be satisfied with salaries based on merit," reports Alain Jemain, author of the recent book *Les Peugeot*. "They are not entitled to fat dividends as their birthright." The Calvinist ethic is alive and well at Peugeot.—**Diana Fong**

SCHLUMBERGER FAMILY

Vive Mitterrand

After a period of setbacks, things are again looking up for the Schlumbergers. Schlumberger, Ltd., the world's leading oil services company, is benefiting from increased drilling activity in North America. The family—including the American side, headed by Dominique de Menil and Pierre Schlumberger of Houston—owns 20% to 25% of $9.3 billion (market value) Schlumberger, Ltd., which has been run by professional management since 1965.

In France the Seydoux branch of the family—Jérôme, Nicolas and Michel—are receiving much attention now that the socialist family's old friend, François Mitterrand, is staying on in the Elysée Palace. While Nicolas and Michel run film production companies, Jérôme runs Chargeurs S.A., a $1.8 billion conglomerate that includes UTA, France's largest private airline. Last year Chargeurs stock took a beating on the Paris Bourse. But with Mitterrand reelected, there is speculation that UTA, which mostly flies to Third World countries, will acquire the much coveted Paris-Newark route. Immediately after the election, Chargeurs stock rose 10%.—**Diana Fong**

Patrick Hanson/Keystone Picture Group

Jérôme and Nicolas Seydoux

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LILIANE BETTENCOURT
Life Is Tough

It's irritating to be rich," griped Mme. Liliane Bettencourt, 65, heiress to the L'Oréal fortune, in a rare interview with France's *L'Égoïste*. "Why should one apologize for having money? It started with my father, an idea, hard work, others who succeeded him and expanded the company. Should one be proud or ashamed?"

Liliane Bettencourt

Proud, obviously. Mme. Bettencourt is the richest individual in France, owning 28% of the world's leading cosmetics company (worth $840 million), plus some 4% of Swiss food giant Nestlé (worth $519 million). She got her Nestlé shares when she sold that company half of her L'Oréal shares in 1974; Nestlé has the right to buy out Mme. Bettencourt altogether in 1994.

Bettencourt, who also owns a 25% to 30% stake in L'Oréal's private American licensee Cosmair, lives quietly with husband André, a former Gaullist minister, in an elegant townhouse outside Paris. They have one married daughter, Françoise, who, unless things go seriously wrong, will one day succeed her mother on this roster of billionaires.—**Diana Fong**

Sweden

HANS AND GAD RAUSING
Big Profits In Small Packages

Enormously successful in much of the world, Hans Rausing, chairman of Tetra Pak, still makes no money in the U.S. Is he discouraged? Not at all. "Packaging is an uncertain kind of business," he says. "Things today are not the same as things tomorrow."

Tetra Pak, created by his father, owns technology for packaging liquids—from milk to apple juice—so that they can be transported and

Hans Rausing

Gad Rausing

stored without refrigeration. In 1986, the last time the company released figures, Tetra Pak reported revenues of $2.6 billion. It is owned entirely by Hans Rausing, 62, and his brother Gad, 66, a University of Lund archeology professor.

In the U.S. the $500 million aseptic packaging market is still in its infancy. Tetra Pak dominates (with about 70%) but faces fierce competition from International Paper, Ex-Cell-O Corp. and West Germany's Combi Block. Glass and plastic bottles are still far more popular here than abroad, and U.S. dairies have shied away from ultra-high-temperature milk, which is necessary to avoid refrigeration.

On the other hand, one does see more and more small, brick-shaped juice packs in the stores. Great for kids, campers and picnics, many of these packages are produced by Tetra Pak and give Hans Rausing reason to believe he'll one day be highly profitable in the U.S.—**Lisa Scheer**

INGVAR KAMPRAD
Penny-Pincher

Ingvar Kamprad, another new entry on our list, doesn't act much like a billionaire. He stays in cheap hotels, wears worn sweaters, shuns long-distance telephone calls and takes the employee discount on purchases from Ikea, the Humlebaek, Denmark, furniture retailing chain he founded in 1953 and still privately owns. Kamprad runs Ikea stores the same way he dresses: Watch the costs and never mind the frills. Which is one reason the chain's profits rose 45%, to $155 million, last fiscal year ended Aug. 31, on sales of $2.1 billion.

After World War II, most Europeans bought furniture from large department stores or cartelized local shops. Delivery was slow, price high. But in 1950 Kamprad sent out a catalog of good, cheap mail-order furniture. The response was encouraging. He experimented with several retail concepts before hitting on the right formula: unassembled, boxed furniture of attractive Swedish design picked up by customers at self-service warehouses at savings of 30% to 50%. Nearly debt-free, Ikea now has 77 stores in 18

Ingvar Kamprad

countries, including recently opened outlets in Pennsylvania and Virginia suburbs (FORBES, *Mar. 21*).

Now 62, Kamprad lives as a tax exile in Lausanne, Switzerland. From there he runs Ikano Group, a family holding company that handles Ikea's credit card business, owns land under the Scandinavian stores worth an estimated $250 million and makes investments. Kamprad has registered Ikea as a Dutch foundation to avoid confiscatory Swedish inheritance taxes on his $2-billion-plus fortune. This would give his three sons—ages 19, 22 and 24—a shot at managing the company, if they want it.

Middle East

THE AGA KHAN IV
Quite A Zakat

Karim Al Hussaini presides over one of the world's most unusual fortunes. Upon his grandfather's death in 1957, he became the Aga Khan IV, the 49th hereditary leader of millions of Ismaili Moslems living primarily on the Indian subcontinent, East Africa and Syria. Members of an Islamic Shiite sect, these Ismailis revere their spiritual leader, treat his utterances as law and give him a *zakat*, or Muslim tithe as prescribed in the Koran, of up to 10% of their net personal incomes. Not everyone, of course, pays up. But the result is an annual income estimated at more than $100 million. By tradition and court rulings, that money belongs to the Aga Khan personally to be spent as he alone sees fit. Much of it goes for good works—hospitals, schools, mosques—but there seems to be plenty left over for the head man.

Ismailis are renowned business people, and the Aga Khan is no exception. In his three-decade reign, the Aga Khan, now 50 and a big advocate of Western-style economic development and investment, has amassed a personal net worth well over $1 billion.

He lives extremely well. Unlike his father, the late Aly Khan, who counted Rita Hayworth as one of his four wives, the current Aga Khan has been married to the same woman for 19 years and is the father of three children. He is the ultimate cosmopolite—Middle Eastern by heritage, Swiss by birth, Kenyan by early rearing, American by higher education (Harvard '59), British by passport, French by primary residence (a 200-acre estate near Paris) and most everywhere for investment.

The Aga Khan IV

AFP

Largely through his reported 70% ownership of Fimpar, a publicly traded Italian company, he controls the luxury Ciga Hotel chain of Italy as well as hotels in other European countries. He heads a consortium that owns Costa Smeralda, a ritzy 32,000-acre coastal resort on Sardinia. He has two Mediterranean airlines, Alisarda and Avianova. On the sporting side, he owns 500 Thoroughbreds, many of them champions. One, Kahyasi, won the prestigious English and Irish derbies last month. Some experts value the Aga Khan's racing interests alone at more than $200 million.

Interests in nearly 60 banks, insurance companies, property firms, factories, mills, hotels, resorts and service companies in about a dozen Asian and African countries are grouped under the Aga Khan Fund for Economic Development, actually a profitmaking, Swiss-chartered holding company. Much of the Aga Khan's money goes back to where it came from—the Third World.—**William P. Barrett**

Saudi Arabia

ABDUL-AZIZ A. AL-SULAIMAN
Concrete Wealth

Saudi Arabia's first finance minister, Abdullah Al-Sulaiman, signed the kingdom's first serious oil exploration agreement with the West in 1933. For faithful service, King Abdulaziz Ibn Saud awarded him a license to import cement. This commodity eventually would prove to be immensely lucrative, creating the foundation, so to speak, for the family fortune.

Abdullah's son, Abdul-Aziz Abdullah Al-Sulaiman, left Easton, Pa.'s Lafayette College after a year. Following a stint with Chase Manhattan and service in the Saudi government, Al-Sulaiman in 1954 founded his own company—now called Abdul-Aziz Al-Abdullah Al-Sulaiman & Co.—to represent foreign companies in the kingdom. He also started Rolaco to operate the family cement business. Rolaco soon became perhaps the country's largest importer of building supplies. The Al-Sulaiman family also owns a chunk of Saudi Arabia's lucrative Datsun franchise.

Now 57, Al-Sulaiman and his family also own the Kandara and Jiddah Palace hotels in Jiddah as well as the Inter-Continental hotels in Dammam, Mecca and Cairo. They hold interests in several other hotel companies in Saudi Arabia and abroad, and in banking, manufacturing and insurance. Al-Sulaiman is also said to have vast sums squirreled away in European banks.

When in New York Al-Sulaiman, like a number of other superrich Arabs, bases himself in the General Motors Building, from whose plush offices Rolaco employees help mind the family's American investment portfolio. Total net worth exceeds $1 billion.—**William P. Barrett**

Abdul-Aziz A. Al-Sulaiman

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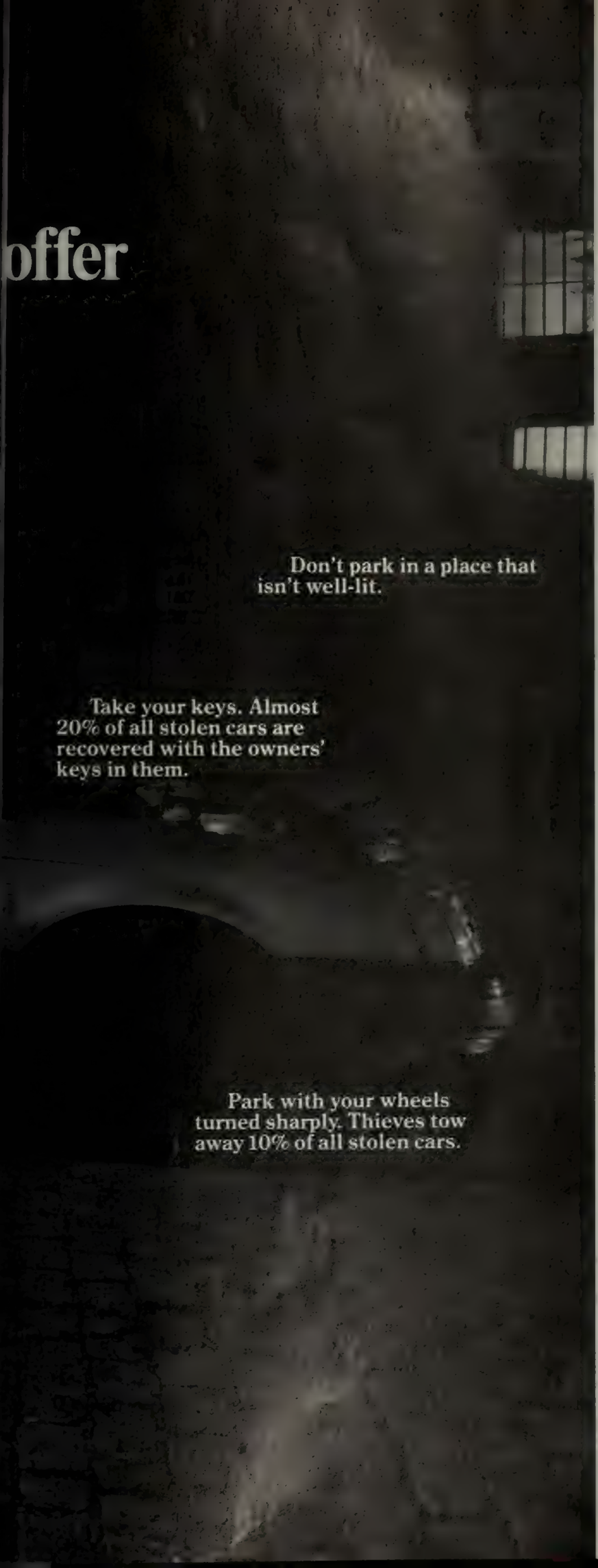

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SULIMAN SALEH OLAYAN

Losses? What Losses?

Using his oilfield construction fortune, earned in his native Saudi Arabia, Olayan was an early Arab investor in U.S. stocks. Since last year's stock market peak, he has lost nearly $90 million (on paper) in the three public companies (First Chicago Corp., Transamerica and Thermo Electron Corp.) in which he owns 5% or more. Numerous other widely reported but undocumented stakes (including Mobil Oil and Chase Manhattan) may have put his total hit around Black Monday at more

Robert Azzi Woodfin Camp

Suliman Saleh Olayan

than $350 million. His spokesman won't comment. About a month before the crash, one of Olayan's companies reportedly sold off nearly 900 London apartments for an undisclosed price. Olayan's people won't talk about this, either.

But Olayan, 69, is a long-term player. His family—his son and daughters are actively involved—controls a worldwide real estate, banking and investment network, along with substantial operating and financial services companies in Saudi Arabia. Even after any market losses, Olayan's net worth still adds up to more than $1 billion.—**William P. Barrett**

AL-RAJHI FAMILY

What Riyadh Wants, Riyadh Gets

The Saudi government has won more financial regulation, along with tougher reporting standards, over the relatively freewheeling money-changing business of the four Al-Rajhi brothers. Last month the newly reconstituted Al-Rajhi Banking & Investment Corp., a commercial bank and one of the kingdom's largest, floated shares to the public.

During the past 40 years, the reclusive Al-Rajhi brothers—Suliman, Saleh, Abdullah and Mohammad—were the biggest of all Saudi money-changers. When OPEC was riding high, deposits, on which they paid no interest, often topped $4 billion. That's some float. In 1983, one oil-boom year for which results were reported, this part of the Al-Rajhi empire alone earned over $90 million.

Last year profits came to less than $10 million. But the Al-Rajhis have huge investments in real estate, factories and other assets; according to bank analyst Capital Intelligence, even their shrunken core business is still worth $500 million. Their initial public offering was wildly oversubscribed. The family wealth can still safely be counted at more than $2 billion.—**William P. Barrett**

BIN MAHFOUZ FAMILY

Saudi's Big, Big Bankers

Ever since Salim Ahmed Bin Mahfouz won royal permission in the early 1950s to open Saudi Arabia's first bank, the National Commercial Bank, the Bin Mahfouz family has defined Saudi banking. The clan, led by

Salim Ahmed Bin Mahfouz

Salim and his son, Khalid Bin Salim Bin Mahfouz, is now diversifying. Capital Intelligence values the Bin Mahfouz' 52% stake in NCB (assets, $17 billion) at about $420 million and its reported 30% holding in the Luxembourg-chartered Bank of Credit & Commerce International at more than $300 million. There are interests in more than a dozen other non-Saudi banks, plus control of Langdon P. Cook, a New York bond house, and Eastbrook, a small New York investment bank.

Back home in Saudi Arabia, the family has big shareholdings in many Saudi companies. In addition, their Middle East Financial Group, based in Luxembourg, reportedly has been buying, at 20 cents or less on the dollar, the debts of troubled Saudi companies. All told, the family's net worth is believed to be about $1.5 billion.—**William P. Barrett**

JUFFALI FAMILY

Rolling Along

Still believed the biggest single business conglomerate in Saudi Arabia, E.A. Juffali & Brothers keeps rolling along. Subsidiaries sell Mercedes trucks (vehicle of choice among Arab haulers), Michelin tires, air conditioners and insurance. Then there's electric power generation, cement production, construction and engineering. Founded in the 1940s by

Robert Azzi Woodfin Camp

Ahmad Juffali

Ebrahim Juffali and brothers Ahmad and Ali, the company helped create a market for electrical goods by bringing electricity to key Saudi cities—including the mountain town where the royal family spent the summers.

Ahmad, now about 64, runs the business, which in recent years has devoted more of its considerable resources to foreign pursuits. The family's New York-based investment arm, Enpro International, oversees numerous real estate and other ventures and reportedly has been seeking to acquire hotels. *MidEast Report* still puts the family's total net worth at more than $1 billion.—**William P. Barrett**

Lebanon

SAFRA FAMILY

Revenge

His family is worth at least $1.5 billion, but Lebanese-raised Edmond J. Safra, now resident in Geneva, is not relaxing. The reclusive Safra, about 57, who controls Republic National Bank of New York (his one-third stock holding is worth well over $400 million), recently launched a Geneva subsidiary to take on the Trade Development Bank unit of mighty American Express Co.

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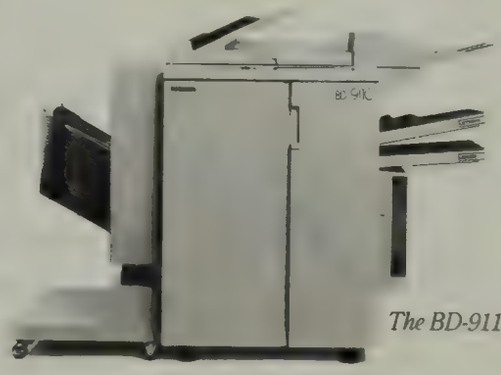

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Safra built Trade Development into a $4.7 billion (assets) private bank, largely with deposits of fellow displaced Middle Easterners like himself, then sold it to AmEx in 1983 for $550 million. Two years later he left AmEx after a bitter personal clash and has been plotting revenge ever since. A noncompete clause expired on Feb. 29. On Mar. 1 his new branch opened. Startup cost: an estimated $200 million.

Safra's younger brothers, Joseph, 49, and Moises, about 53, continue expanding Banco Safra in Brazil. In May they agreed to pay a reported $134 million for 26% of Aracruz, Brazil's leading paper and pulp company. But AmEx is paying its closest attention to Edmond.—**William P. Barrett**

RAFIK BAHAUDDIN HARIRI
Make Business, Not War

According to bankers familiar with his operations, Hariri, a native of Lebanon, has been maintaining very large cash reserves in a number of European banks. To what end is unknown: Hariri, about 43 years old, has

Rafik B. Hariri

been keeping a relatively low profile, quietly attending to his various construction and banking enterprises. His personal net worth is estimated in the $1-billion-to-$2-billion range.

Mostly, his activities now seem to be outside the Middle East and certainly outside his adopted Saudi Arabia, where he made his fortune with the Saudi Oger construction company. Hariri's main investment vehicle, the Mediterranean Investors Group, is based in Paris. From Washington, his Hariri Foundation provides financial assistance to Lebanese studying outside their war-torn country. Over the years Hariri has tried to negotiate ceasefires among the various factions destroying Lebanon. Clearly, he is a far better businessman than diplomat.—**William P. Barrett**

Kuwait

AL-GHANIM FAMILY
From Autos To Their Parts

Automobiles have been mighty good to Kuwait's Al-Ghanim family. It was cars' need for gasoline that

Yusuf Al-Ghanim

first brought Western oil companies to the Gulf and allowed the Al-Ghanims to carve out a niche selling a sideline product, kerosene. Then, in the mid-1940s, the family obtained the local General Motors distributorship. Yusuf Ahmed Al-Ghanim & Sons eventually became one of the world's most lucrative car agencies. Yusuf and one of his sons, Qatayba, went on to fashion a diverse Gulf empire ranging from shipping and insurance to sales of prefabricated buildings and water coolers. Operating through the umbrella Al-Ghanim Industries, this extremely secretive family was also among the first wealthy Arabs to begin foreign investing, particularly in the U.S., in a big way. Their wealth is estimated at $1 billion.

They still like cars. In the past year, AI (for Al-Ghanim Industries) Automotive Corp., a subsidiary of the family's New York-based AI International Corp., has continued buying rival U.S. auto parts jobbers and distributors. According to various trade publications, AI Automotive is now one of the largest such companies in the U.S.—**William P. Barrett**

MOHAMED ABDUL MOHSIN AL-KHARAFI
The Man To Know In Kuwait

Al-Kharafi helped establish the National Bank of Kuwait back in 1952, when Kuwait was a sand-blown British protectorate whose oil potential was only starting to be realized. Now about 70, he also founded what is today the Al-Kharafi Industries Establishment, a construction giant.

Al-Kharafi's businesses proved well positioned for the massive transfer of assets in the 1970s and early 1980s from oil-starved Western countries to oil-drenched Middle Eastern kingdoms. But, far more significant, the Al-Kharafis also have been able to weather the more recent lean years. For 1986, the latest year available and a decidedly down year around the Gulf, Al-Kharafi Industries had reported profits of $90 million.

Al-Kharafi also chairs the publicly traded National Bank of Kuwait (assets, $10 billion), Kuwait's preemi-

Mohamed Al-Kharafi

nent financial institution and one of the Gulf's best-run banks.

David Mizrahi, editor of *MidEast Report*, a New York-based newsletter, estimates the Al-Kharafi family fortune at more than $1.5 billion. Among the next generation is Mohamed's son, Jassim Al-Kharafi, 47, Kuwait's finance minister since 1985.—**William P. Barrett**

AL-MARZOOK FAMILY
Investors Supreme

According to one well-informed Kuwaiti, Khalid Al-Marzook, about 56, lives in perhaps the largest private house in all of Kuwait. He leads a family, new to this year's billionaire crop, that has amassed its wealth not primarily by trading or manufacturing but through shrewd real estate dealings, with a little banking thrown in.

A basis of the Al-Marzook fortune, at least $1 billion, is the Kuwait Real Estate Co. KREC was founded in 1972 (just before the oil boom) by the Al-Marzooks and Kuwait's ruling Al-Sabah family. Chaired by Khalid Al-Marzook, KREC owns some of the most valuable commercial properties in Kuwait, as well as a portfolio of interests in Kuwaiti and foreign companies. Unlike many other Kuwaiti real estate players, KREC eschews land speculation in favor of careful

development, creating more lasting value. The Al-Marzooks were also instrumental in creating the Kuwait International Investment Co., one of the kingdom's first privately owned financial services companies. There are also substantial direct foreign investments, particularly real estate in Japan, Europe and the U.S.

The Al-Marzooks operate through a number of companies, including Pearl Investment, Pearl Real Estate, Kuwait Projects and the Kuwait Real Estate Bank. They also control *Al Anbaa*, a leading Kuwaiti daily paper. *Al Anbaa* does nothing to lessen their influence in tiny Kuwait.—**William P. Barrett**

Bahrain

KANOO FAMILY
Shifting Sands Of Commerce

The wealth of Bahrain's Kanoo family, another new Middle Eastern name on the list, nearly evaporated in the 1930s when the pearl-fishing industry collapsed and the Kanoo bank-

Arab News

Kanoo family members

ing and trading business was caught with uncollectible receivables. Founder Yusuf Bin Ahmed Kanoo did manage to make good on his own debts by the time of his death in 1945. His nephews and great-nephews have rebuilt what is now called the Kanoo Group into one of the largest pan-Gulf commercial organizations. Its tentacles reach into shipping, shipping services, airline and travel agencies, heavy construction equipment, importing, banking, insurance, business services and real estate ventures. The leader of both the family and business group is now Ahmed Ali Kanoo, 65, a great-nephew of Yusuf. He is also chairman of the National Bank of Bahrain.

At the height of the oil boom, annual sales of all the associated Kanoo companies and joint ventures were estimated at more than $1 billion, on which the Kanoos were earning the typically fat Middle Eastern margins of 10% to 30%. Business is now perhaps 25% of the peak. But what's left plus what was stashed away during the lucrative 1970s gives the decentralized clan, now working Bahrain and Saudi Arabia, a net worth of around $1 billion.—**William P. Barrett**

India

BIRLA FAMILY
Bring On The Competition Raj

Prime Minister Rajiv Gandhi's attempt to reduce Indian bureaucracy—the notorious License Raj—and encourage competition wins him few friends in business. "India's businessmen hate the idea of fierce competition," says Ashok Birla, head of one of the five major branches of the Birla Group. Birla explains: "They may complain about endless regulations, but the fact is that our big business houses have done quite well despite the red tape. They have mastered the art of making the bureaucracy work for them [to block competitors]."

The Birlas, India's richest industrialists, belong to the conservative entrepreneurial community of Marwaris from India's northwestern state of Rajasthan. They control 200-plus companies in India, Malaysia, Indonesia, the Philippines, Kenya, Nigeria, the U.K., Canada and the U.S. These produce everything from automobiles to synthetic fabrics to steel and paper. The family typically owns 25% to 45% of their ventures, whose total assets, according to Indian government figures, exceed $4 billion. Given Indian taxation, there's likely much more, says Rahul Singh, editor of the *Sunday Observer* in Bombay, and a longtime student of the Birlas.

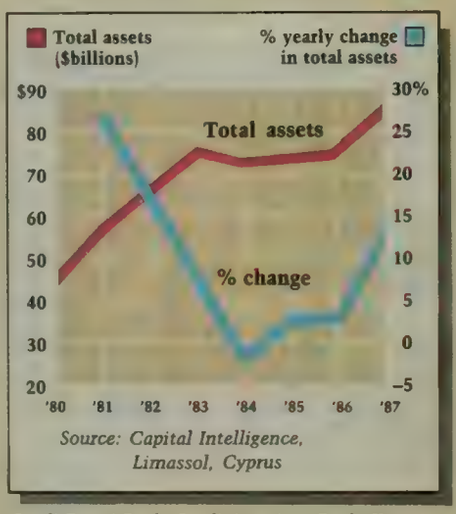
The Birlas support Gandhi's liberalization. Ashok and S.G. Warburg, the London investment bankers, are

Ashok Birla

launching the Birla Mercury Fund, composed of two funds set up primarily to induce expatriate Indians to invest in India's economic expansion. And Aditya Birla, Ashok's cousin, recently announced that his part of the Birla Group would invest some $2 billion in petrochemical plants. Good news, this, for the Competition Raj.—**Pranay Gupte**

Turnaround in the Gulf

Is the Gulf finally adjusting to low oil prices? Bank assets are one way of gauging economic vitality in the Middle East. Data for ten leading private commercial banks* in four Gulf states as recorded by Capital Intelligence, a bank monitoring agency in Limassol, Cyprus, show the best gain since 1982 last year—all the more dramatic because it predates Iran's military reverses in 1988. More people, it appears, are now much more willing to leave more wealth in the Middle East, or even bring it there to invest, than they have been in years.



Source: Capital Intelligence, Limassol, Cyprus

*Saudi Arabia: National Commercial Bank, Riyad Bank, Saudi Fransi Bank, Saudi American Bank. Kuwait: National Bank of Kuwait, Commercial Bank of Kuwait, Alahli Bank of Kuwait, Gulf Bank. Bahrain: Gulf International Bank. United Arab Emirates: National Bank of Abu Dhabi.

The Americas

Colombia

PABLO ESCOBAR GAVIRIA
Bring Me The Head Of Manuel Noriega!

The Medellín cocaine cartel chief Pablo Escobar Gaviria had a hand in the deal with Panama's General Manuel Antonio Noriega in 1982 to smuggle cocaine via Panama to the U.S. According to Ramón Milian Rodriguez, a cartel money launderer, Noriega was paid somewhere between $320 million and $350 million in the early 1980s. But now the cartel wants Noriega dead. According to sworn testimony before Congress, Escobar and friends have put a $1 million contract out on General Noriega.

Without Noriega's services, which included money laundering, the cartel is in a jam. An estimated $1 billion of the cartel's money is believed to be frozen in Panamanian banks, and money is piling high in smugglers' homes, bank vaults and safe-deposit boxes in the U.S.—making it easier for U.S. officials to find. Last December the federal government seized $20 million of Florida real estate believed to belong to Escobar and Juan David Ochoa Vasquez *(see below)*

This is not the cartel's only problem. Supply is rising, and the price per kilo is down to $14,000 in Miami, 70% less than five years ago. So more goes to Europe, where the cartel gets up to $55,000 a kilo. In Madrid last May, authorities seized a shipment of 1 metric ton, worth $50 million.

Escobar Gaviria

As his problems mount, the 200-pound Escobar still walks freely around Hacienda Napoles, his 50,000-acre ranch near Medellín, Colombia, despite police raids and pending indictments for countless offenses in the U.S. Everyone would benefit if a way could be found to lock Noriega and Escobar in a room together with a couple of sharp knives.—**Claire Poole**

GONZALO RODRIGUEZ GACHA
Sandinista's Friend

Rodriguez Gacha, a new entry this year, may be the wealthiest cocaine lord of all. Known as "The Mexican" for his fondness of Mexican culture (and, some say, his crude manners), Rodriguez operates out of Bogotá but is associated with the Medellín cartel. According to a U.S. indictment, he is in charge of all Medellín cocaine distribution to the U.S. West Coast.

Born in Pacho, a city of 50,000 outside Bogotá, Rodriguez is only 41 and apparently rose to power as Pablo Escobar's lackey. He allegedly killed a left-wing Colombian political leader because leftist guerrillas were interfering with his coca farmers. He also set up one of the world's largest cocaine production centers ever found, the so-called Yari laboratories, busted in April 1984.

After that bust followed the assassination of Colombian Minister of Justice Rodrigo Lara Bonilla. It was Rodriguez Gacha who helped establish alternative manufacturing and distribution in Nicaragua. He was aided there by the Sandinistas, notably by Federico Vaughan, a senior official in the Sandinista regime who arranged for fuel for cartel planes at a Nicaraguan military air base. More recently, Rodriguez Gacha is said to have initiated shipping cocaine in fragrant flower shipments from Bogotá, to confuse the noses of airport guard dogs. (Question for our trade ambassador: Why not stop all Colombian flower imports?)

E. Vandeville Gamma Liaison

Gonzalo Rodriquez Gacha

According to former Medellín cartel executive Max Mermelstein, Rodriguez Gacha is greedy. "It's a matter of routes," Mermelstein told FORBES, "and how much he was ripping off from the other [dealers]" in "lost" deliveries. Mermelstein figures that Rodriguez has made about $3 billion, but other sources are not able to confirm this claim.

For now, put Rodriguez Gacha's worth at $1.3 billion, plus all he could steal. If Mermelstein is right, Escobar may want to have Rodriguez rubbed out along with Noriega.—**Claire Poole**

OCHOA FAMILY
Something Can Be Done

Another fellow we'd like to see in that room with Noriega and Escobar is Jorge Luis Ochoa Vasquez. His father, Fabio, once smuggled Scotch whiskey and television sets with Escobar and then followed him into cocaine. Fat Fabio recently opted to spend more time horse breeding and handed the cocaine business to middle son Jorge, 39. It was Jorge, after all, who set up distribution in Spain, Puerto Rico and Nicaragua and, most important, Miami. (Jorge's brothers Juan David and Fabio Jr. work for Jorge.)

Much wanted by U.S. lawmen,

E. Vandeville/Gamma Liaison

Jorge Luis Ochoa

Jorge uses cash and bloodshed to stay beyond their reach. He was arrested in Spain in 1986 when he was shopping for fighting bulls and cocaine routes—but was extradited back to Colombia for bull smuggling and freed two weeks later. Then, last November, highway patrolmen picked up Jorge at a roadblock in southern Colombia. A month later the Picota prison warden in Bogotá set Ochoa free, apparently with the consent of a local judge but not the Colombian government.

Medellín henchmen planned January's infamous killing of Carlos Mauro Hoyos, Colombia's upright attorney general. Hoyos apparently was investigating Ochoa's suspicious release in November. Worse, he publicly favored the reinstatement of a 1979 extradition treaty with the U.S. That would land Ochoa in the U.S., the killer's worst nightmare. And it is a mystery why the government of President Virgilio Barco Vargas does not avenge Hoyos' death by quickly reinstating the treaty.—**Claire Poole**

Brazil

ROBERTO MARINHO
Soap Opera King

At 83, Roberto Marinho has not yet passed his conglomerate, Globo Organizations, on to his three sons. "You can't even ask him that question," says an executive with Globo International in New York. "The man is eternal."

The man also has his hands full. As owner of the world's fourth-largest private television network (behind the U.S. networks), Globo reaches 80 million Brazilians, sells programming to 90 countries and has an 80% stake in Italian-language network Telemontecarlo. Marinho's TV revenues alone are an estimated half a billion dollars yearly—54% of Brazil's entire advertising spending. The group, with over 100 businesses, also includes insurance and finance companies, shopping centers, cattle ranches, a major art collection.

Marinho started with a Rio de Janeiro newspaper, *O Globo*, begun by his father, who died in 1925. Today *O Globo* (revenues, near $100 million) is the largest daily in Brazil. Marinho's TV programming, especially the controversial *novelas* (evening soap operas as important a national obsession as soccer), add to his considerable political clout.

"We're cautious, but our investments are going ahead," says Marinho. "Once Brazil has settled with the international financial community and promulgated its new constitution, we will certainly experience new growth."—**Patrice Duggan**

Roberto Marinho

Delfim Martins/Fa

SEBASTIÃO FERRAZ DE CAMARGO PENTEADO
Brazilian Bechtel

Camargo, one of ten children born to a small farmer in Jaú, São Paulo, has built his fortune through political contacts and an abiding faith in Brazil's future. His $1.6 billion (net assets) construction and engineering conglomerate, Camargo Corrêa, has

Luiz Ioanas/Editora Abril

Sebastião Camargo

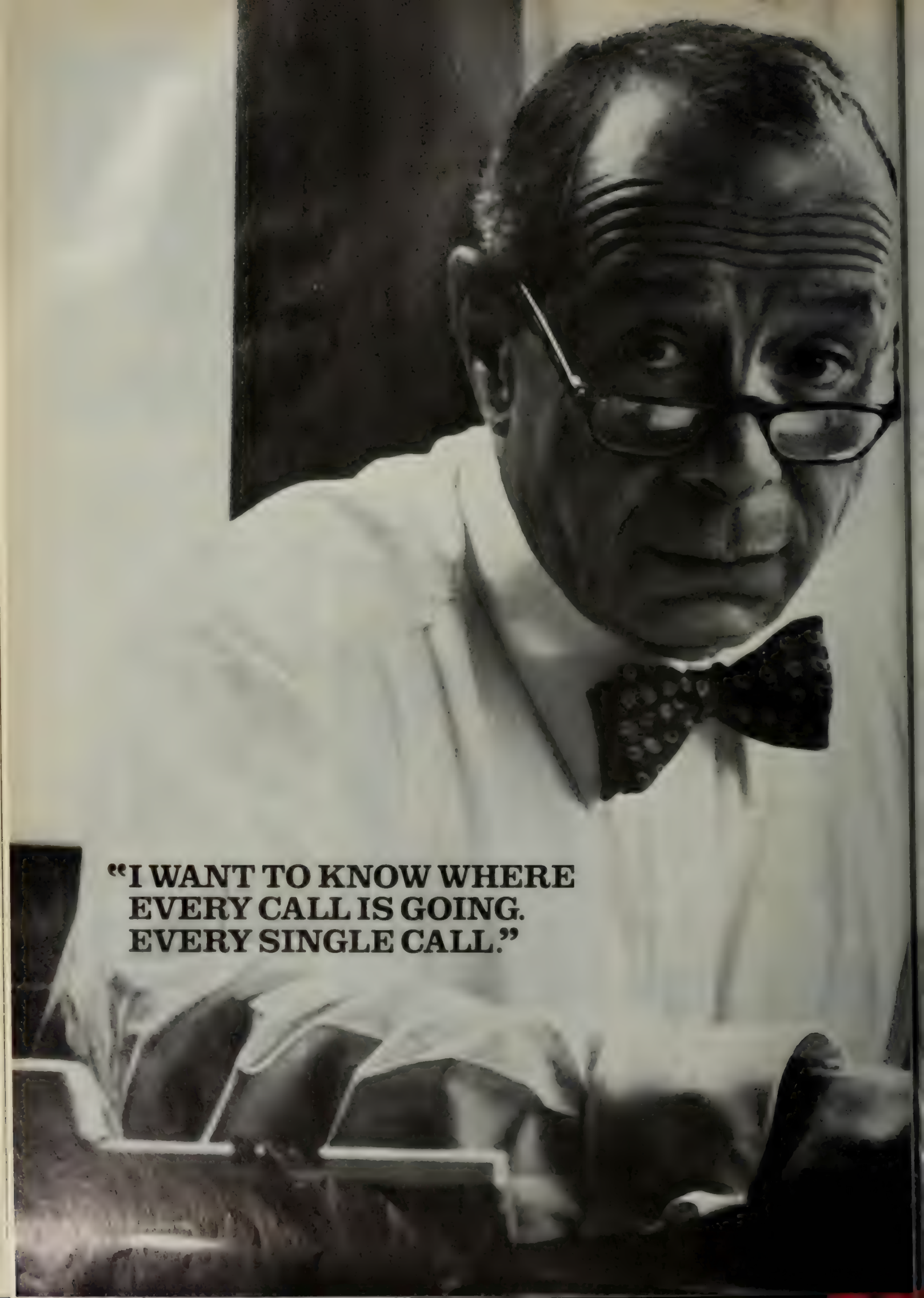
built over 1,000 projects in Brazil, including Brasilia in the 1950s; Itaipu, among the largest hydroelectric plants in the world, in the 1970s; and the Amazon hydroelectric plant Tucuruí in the 1980s. Camargo Corrêa, with 33 companies, 30,000 employees, had 1986 revenues of nearly $1 billion. Succession is no question: He has three married daughters—Rosana, 35; Renata, 34; and Regina, 31. All his sons-in-law work in the company.

What of Brazil's $110 billion in foreign debt, its nearly 20%-a-month inflation, its political chaos? "I'm not familiar with economics," says Camargo. "I'm only a businessman." But, he comments: "You have to believe in Brazil."—**Patrice Duggan**

ANTÔNIO ERMÍRIO DE MORAES AND FAMILY
Time To Hand Over

João Bosco Lodi, a business consultant who specializes in Brazil's family businesses, notes: "In Brazil, family businesses rarely endure past the third generation." That's the challenge confronting Antônio Ermírio De Moraes, 60. His grandfather was a Portuguese immigrant who built a small shoe shop into what is now $1.7 billion (net assets) Votorantim. The largest industrial group in Brazil, São Paulo-based Votorantim owns nearly 100 companies and employs 60,000 people. It is owned equally by Antônio Ermírio and his three siblings.

The fourth generation consists of 23 cousins, 10 of whom work in the group and will soon have new responsibilities. "It is already time to tap the next in line and depart," Ermírio recently told the press. Speculation per-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sists that Ermírio will run for president next year; he is enormously popular with business.—**Patrice Duggan**

Mexico

GARZA SADA FAMILY
Down To Their Last $2 Billion

In the late 1970s the Garza Sadas' Grupo Industrial Alfa borrowed heavily abroad in order to buy into new (for them) industries like tourism and electronics. In April 1982 the huge ($1.5 billion net worth) steel and packaging combine, run by Bernardo Garza Sada, defaulted on the largest private foreign debt—$2.7 billion—in Latin America.

But late last year, after six years of negotiations with 130 creditors, agreement was finally reached. Garza Sada gave his creditors 45% of Alfa's stock; the creditors wrote off over $2 billion of debt.

Not so lucky is the family's $103 million (net worth) Visa, run by some of Bernardo's cousins. Visa is in soft drinks, food and packaging and the Tecate, Carta Blanca and Bohemia breweries. Visa also went heavily into debt for expansion during Mexico's oil boom, but continuing quarreling among the three cousins keeps getting in the way of renegotiating Visa's debt load.

Bernardo Garza Sada

Ironically, the two other companies that round out the family's Monterrey Group have kept the family solvent. Vitro (net worth, $1.5 billion) stayed away from foreign debt and in the business it knows best, glass, and is still profitable. Chemical maker Cydsa (net worth, $585 million) did borrow abroad, but cautiously, and recently renegotiated its debt.

So, even with all of their country's problems, the Garza Sadas still have equity in excess of $2 billion and remain far and away Mexico's richest family.—**Claire Poole**

Canada

KENNETH COLIN IRVING
The Baron Of New Brunswick

In the 1920s Kenneth Colin (K.C.) Irving owned a Ford dealership in his hometown of Buctouche, New Brunswick and was an agent for Imperial Oil—a typical successful small-town businessman. But one day Imperial yanked K.C.'s gasoline franchise. Enraged and vengeful, K.C. borrowed $2,000, set up his own service stations next to Imperial's, and soon beat out Imperial to become number one in the region. He did it by finding suppliers of cheaper oil and passing the value along to his customers.

With cash gushing in from the stations, K.C. integrated forward, backward and sideways: a construction company to build the service stations; St. John Shipbuilding & Drydock Co., a shipyard (now Canada's biggest) to build oil tankers for Irving Refining Ltd. (also Canada's largest). And he created Irving Pulp & Paper Co., the biggest supplier in the Maritimes.

Today the Irvings—K.C. and his middle-aged sons Arthur, John and James—are New Brunswick's largest private landowners and are said to account for over a quarter of the province's GDP. The empire is spreading across the border to Maine, where the Irvings operate 150 service stations, own 700,000 acres of prime timberland, and supply more than 75% of the asphalt used in the state. The Irvings have been accused, mainly by smaller-scale competitors, of everything from predatory pricing to violating safety regulations in the state's wood camps.

Kenneth Colin Irving

But even among critics there is grudging respect for K.C., who, at 89, doesn't drink, smoke or swear, works 16-to-18-hour days, and has passed similar work habits along to his sons and grandsons, one of whom, James Jr., is said to be heir-apparent. The Irvings' empire is knowledgeably estimated to be worth up to $8 billion.

Known for his aversion to taxes, K.C. now spends much of his time in Bermuda, whose government is more lenient on the subject than Canada's. Canada wants C$500 million in back taxes and interest from oil profits funneled through a tax-free company in Bermuda.—**Diana Fong**

PAUL, ALBERT AND RALPH REICHMANN
Big Fish, Small Pond

Canada is no longer big enough to hold the three Reichmann brothers, who have invaded the U.S. to become North America's largest real estate developers and New York's biggest commercial landlords. Recently their privately owned Olympia & York Developments made a tender offer for the giant railroad company Santa Fe Southern Pacific. They followed that with backing for Campeau's acquisition of Federated Department Stores. Now, not even North America can hold them: The brothers have invested C$6.4 billion to develop London's Canary Wharf project. At home, the Reichmanns' 70%-owned Gulf Canada Resources has an unsolicited C$500 million bid on the table for Calgary's Asamera, which has prized oil interests in Indonesia, the North Sea, Colombia and Italy.

The Reichmanns' ability to recognize and seize the really big opportu-

Randy Moore/The Washington Star

Paul Reichmann

nities in real estate, oil—whatever—is unsurpassed. After buying Gulf Canada for $2.4 billion in 1985, they sold the downstream assets, kept the exploration company, juggled other assets and won a $400 million tax break. At the end of the day the brothers' Gulf Canada stake was worth $2.2 billion. Meanwhile, annual cash flow from O&Y's Manhattan real estate alone is conservatively estimated at $750 million. All still in their 50s, the Reichmann brothers sit astride a joint net worth that now comes to an estimated $9.2 billion.—**Diana Fong**

GALEN AND GARRY WESTON
The Blood Runs Thick

What started out as a family-owned bakery in 1882 is today two huge independent food conglomerates, run by third-generation brothers on different sides of the Atlantic. Galen Weston, 47, who plays polo with Prince Charles, runs the Toronto-based George Weston Ltd., which earned C$134 million on C$11 billion in sales last year. He is the aggressive acquirer and builder, comfortable with lots of debt. Recent acquisitions include supermarkets in St. Louis; the

Peter Redman / Universal Pictorial Press

Galen and Garry Weston

Canadian division of Britain's chocolate maker Cadbury; and Holt Renfrew, a chain of fur and fashion stores purchased from Carter Hawley Hale for $43 million that Galen's wife helps run.

Meanwhile, elder brother Garry Weston, 61, quietly runs £2 billion (sales) Associated British Foods in London. Garry is the careful preserver and artful disposer; ABF has no long-term debt. He got ABF out of South Africa at a tidy profit in 1983 before the rand collapsed, and now has $1.8 billion in cash to invest. Brother Galen would no doubt have lots of ideas for spending that cash, but perhaps he should keep them to himself. The Weston clan's 60% of Galen's George Weston Ltd. is now worth $798 million, while their 63% of Garry's ABF is worth $1.4 billion.—**Diana Fong**

KENNETH ROY THOMSON
Lackluster Cash Boxes

Ken Thomson

Peter Sibbald/Picture Group

Toronto's Kenneth Roy Thomson, second hereditary Lord Thomson of Fleet, generally avoids the press. But he recently allowed a Toronto *Financial Post* reporter in to see his collection of rare ivory carvings, many of them skeletons, skulls and morbid scenes of the dead and dying. "If you get any highfalutin ideas about how important you are," the billionaire genially told the reporter, "look at a few skeletons and you'll soon come down to earth."

Feet on the ground, Thomson, 64, unostentatiously runs Thomson Newspapers, International Thomson Organisation, Hudson's Bay Co. and the other businesses and investments that account for his family's $5.1 billion fortune. He is aided by his son and likely successor, David, 31. Last year Thomson's ITO bought a leading British legal publisher, and earlier this year, four major databases from Capital Cities/ABC. He also picks up mostly small Canadian and U.S. newspapers—there are 172 now, largely monopolies, with a combined circulation of 3.1 million. Concentrated around the Great Lakes area, the newspapers are lean on editorial content, fat on gross profit margins, and are what the current Lord Thomson of Fleet's feisty father, Roy (1894-1976), liked best—as one critic put it, "A lackluster aggregation of cash boxes."—**Diana Fong**

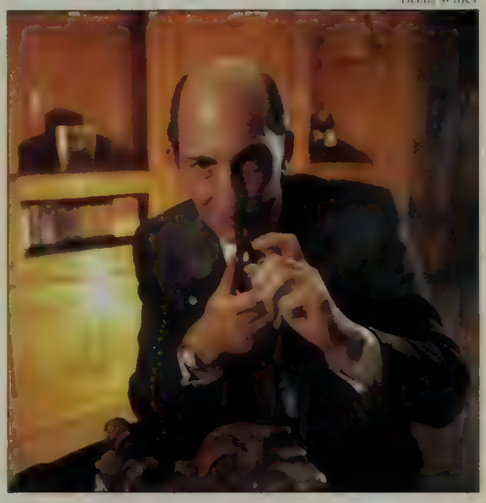
CHARLES BRONFMAN
Separate But Equal

There has never been much love lost between Canada's Charles Bronfman, 56, and his Americanized brother Edgar, 58. But since their founding father, Samuel, died in 1971, they have tried to keep control of Seagram, the distilling empire, in the family.

Early this year the brothers exercised rights of first refusal, and each bought 258,000 Seagram shares from nephews at $73 a share. In 1985 they cooperatively acquired $95 million worth of Seagram stock from their late sister Minda's estate. Each brother's 17% stake in Seagram has a current market value of more than $931 million, although the market may be undervaluing the shares.

While he helps Edgar run Seagram, Charles minds his own private investment vehicle, Claridge Inc., and his interest in the Montreal Expos baseball team. Claridge has a stake in movie theater chain Cineplex Odeon, a new joint venture with National Bank of Canada in Montreal and other investments.—**Diana Fong**

Brian Willer



Charles Bronfman

Pacific Rim

Japan Real Estate

YOSHIAKI TSUTSUMI
How To Lose A Billion

It's been a less than perfect year for Yoshiaki Tsutsumi. He's still the world's richest man, but the market value of his key stockholding, Seibu Railway, fell from its April 1987 peak of $3.98 billion (Y5,800 a share) to $2.33 billion (Y3,400 a share), wiping $1.65 billion off his paper worth. In the land of the rising market, Seibu has recovered somewhat, but Tsutsumi is still down $650 million.

And now for the good news: A new law gives special tax and financing breaks for the right infrastructure construction—Yoshiaki reportedly has 17 such projects under way. The government also proposes limiting land ownership rights so as to create instant rights-of-way for tunnels for carriers like Seibu, saving his company untold billions.

Tsutsumi's father, Yasujiro, a brilliant real estate and transportation entrepreneur and pyramider, bought land in quantity from Japanese aristocrats forced to sell ancestral land at near-bankruptcy prices right after World War II. Yasujiro died in 1964. He left the bulk to Yoshiaki, the son of one of his many mistresses. Yasujiro's legitimate son, Seiji Tsutsumi *(which see)*, inherited enough property to qualify him for the billionaire list but Yoshiaki got the main assets.

Tsutsumi

Last year Tsutsumi, 54, complained that we overestimated his wealth. Legalistically, he had a point: Some land we thought was owned by his holding company, Kokudo Keikaku, was really owned by Seibu Railway, and so belongs to Tsutsumi only indirectly. Adjusting for that and for the diminished value of the Seibu stock, we revise our estimate of his unarguably owned, visible assets in 1988 to $18.9 billion.—**Hiroko Asami**

TAIKICHIRO MORI
World's Second-Richest Man

Taikichiro Mori, 84, is a man accustomed to looking at the big picture. He was a professor of economics at prestigious Yokohama City University (he still conducts business in a scholar's black robe) until he inherited his father's real estate, at age 50, and decided the rough-and-tumble of commerce was the place for him after all. He now owns 68 buildings, deliberately concentrated in the Minato ward because it is close to government offices. The buildings are worth, net of debt, nearly $18 billion, making Mori the second-richest person in the world.

Taikichiro Mori

Mori's most inspired creation to date is Ark Hills, an office building with condos, hotel and music hall in one development to provide an international financial center for the foreign financial institutions crowding into the city. Mori is undertaking similar projects for Japanese companies because he sees ever more companies transferring their offices close to the government. Mori reckons they will like hybrid office buildings that provide top executives with handy condos, bypassing Tokyo's traffic problems and shortening distances between home and work.

What does Mori, an unusually open Japanese businessman, think of Tokyo real estate? "In the future we should be very careful about the balance of supply and demand, as a new commercial zone is to be built along Tokyo Bay," he told FORBES. When it is being built in the mid-1990s, "Land prices in some inconvenient commercial districts may even fall."

Heretical? No, just commonsensical.—**Hiroko Asami**

KICHINOSUKE SASAKI
Dr. Speculation

New to the list this year, Sasaki, 55, is the only Tokyo real estate billionaire who is also a doctor (of geriatric diseases). He borrowed money to open his clinic immediately after graduation—very un-Japanese—paid off the loan quickly and soon acquired three rental properties as investments. Hooked, he closed the clinic and started a real estate compa-

Kichinosuke Sasaki

ny, Togensha. Since 1982 Togensha has exploded, constructing 40 tall, thin office buildings. Sasaki's equity is at least $2.5 billion, after $1.1 billion in debt.

Sasaki dismisses fears of a sharp drop in commercial land values in Tokyo. "If it happens, the Japanese economy would topple," he says, noting that land is widely held as collateral by the largest institutions. Unlike Taikichiro Mori, Sasaki does not think the Tokyo Bay project will hurt office rentals. "From 1992 another boom is likely to be seen [in downtown Tokyo]," he argues. The speculative doctor is building 8 buildings now and plans 17 more. Unlike other real estate tycoons, he shows no interest in foreign property. Why not? "I cannot expect a reasonable capital gain," he replies.—**Hiroko Asami**

YONEICHI OTANI
Convention Thinking

Yoneichi Otani, president of New Otani Hotel, contends that no new hotel will pay in Tokyo at existing land prices. He's not complaining: Thanks largely to Japan's sky-high land prices, the Otani family hotel and real estate empire is worth some $4.2 billion. But even Otani won't build more hotel space in Tokyo. On

Robert Wallis/IB Pictures

Yoneichi Otani

his family parcel there, Otani is developing an office building, and after that a residential district, creating a luxury Otani village. To expand in hotels he has turned to Los Angeles and Hawaii and is shopping for another in New York or San Francisco. "We have several offers outstanding; the competition with other Japanese companies for the hotels is embarrassing."

Like most Japanese hotels in major cities, the New Otani group earns most of its money from banquet service—weddings, corporate anniversaries and other celebrations of milestones in life. Room occupancy of the New Otani hotels is a healthy 70%, yet rooms account for only 30% of revenues, with high-margin banquet business accounting for most of the rest.—**Hiroko Asami**

GENSHIRO KAWAMOTO
The Kawamotomobile (Maybe)

Last year Genshiro Kawamoto figured that Ginza real estate, where he made his $1.3 billion after shutting the family drapery business in 1972, was too expensive. He decided to invest in Hawaii, bought a Rolls-Royce limousine and drove around Oahu looking for houses, sometimes knocking on the doors of surprised owners

Robert Wallis/IB Pictures

Genshiro Kawamoto

to make them an offer in his gentle, polite way. Since last August he's paid about $100 million for 170 homes, including the old Kaiser mansion. After a few deals, his Rolls became known around Honolulu as the "Kawamotomobile."

Kawamoto, 56, tells FORBES he doesn't want to be like other Japanese speculators in Hawaii—unsettling the market by flipping properties to yet other Japanese. "I want to hold for the long term," he says, "and rent only to Americans, not Japanese." He also intends to remodel and refurbish his houses, according to his own taste; this, he argues, will improve local property values.

Now Kawamoto is looking homeward again. He figures the government's intervention in Japanese land sales will break a lot of speculators and put good Ginza property back on the market at distress prices. So he tried to bring his Kawamotomobile home to Japan.

"I paid Y20 million [about $154,000] for my car," he sighs, "and the tariff and commodity tax added another Y10 million. But because of inspection at customs, it has been held at the port for a month and a half." Now the authorities want to rip out all the seats in order to test for vibration. That'll cost another Y2 million.

Kawamoto: "Now I understand what foreigners mean by nontariff trade barriers."—**Hiroko Asami**

KIYOFUMI MOROTO
Four Centuries Later

Moroto's home on 1 acre in the exclusive Tokyo area near Shibuya train station is valued upwards of $300 million. He owns and rents out another acre or so nearby, equally valuable. What of reports that government action has forced down Tokyo residential land values by 20% to 30%? That's middle-class land. Values at Shibuya, as in other elite Tokyo neighborhoods, are so far holding up nicely.

Moroto, 76, has a family fortune dating back 400 years to samurai warriors who gave up battle for agricul-

Robert Wallis/IB Pictures

Kiyofumi Moroto

ture. Early this century the government induced his grandfather to switch from farming to forestry. As a result, Moroto today owns a cedar forest. Near Tokyo, the enormously valuable forest will probably become a restful resort development within a few years.

Meanwhile, Moroto lives nicely off his urban acreage and Moroto Towel, one of the largest towelmakers in Japan—a very quiet, very comfortable billionaire.—**Hiroko Asami**

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EITARO ITOYAMA
Young, Rich And Ambitious

Billionaire-turned-politician Eitaro Itoyama is a free-trade advocate who also urges that Japan spend more on defense. "Japan should not be on an equal footing with the States," he tells FORBES, "unless she increases her defense budget, lessening the U.S. financial burden of Japan's defense."

As the alienated illegitimate son of a self-made tycoon, Itoyama struggled

Eitaro Itoyama

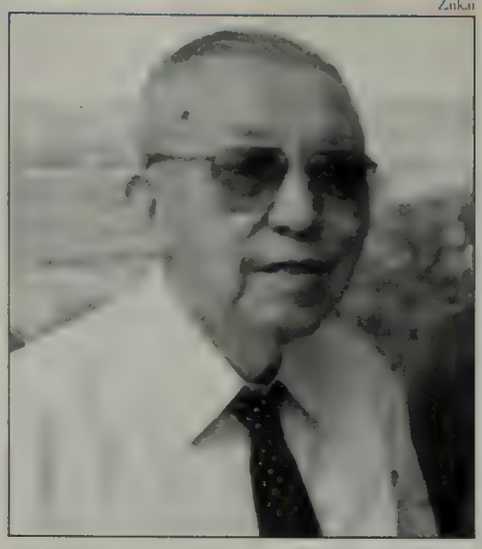
to make his own mark in business in his youth. He and his father were finally reconciled, and the young man inherited the bulk of his father's huge real estate fortune in 1985. Now he is a member of the Nakasone faction of the dominant Liberal Democratic Party, and chairman of the Lower House foreign affairs committee—and ambitious. "In several years, I will surely join the cabinet," says Itoyama, 46. Later on he says he will use his money to form his own faction. Smart, tough, young and very rich, this is a businessman whose political horizons appear unlimited.—**Hiroko Asami**

YOHACHIRO IWASAKI
Take Lots Of Money

In 1979, to the astonishment of the Japanese, the *Queen Elizabeth II* called at the port of Kagoshima. The locals shouldn't have been surprised, though. Kagoshima is Yohachiro Iwasaki's hometown and the location of one of his resorts. Iwasaki had foreseen the commercial value of upgrading his resort center to the international boat-set level and arranged for the *QEII*'s call.

Born poor in 1902, Iwasaki built up a $4.6 billion fortune. He went first

Zukan



Yohachiro Iwasaki

into logging, after the Great Earthquake of 1923, then into real estate, then into tourism. Now he is building a 12.5-mile-long seashore complex boasting four hotels, an 18-hole golf course, and so on, north of Brisbane on the east coast of Australia.

Iwasaki is planning another big resort at the tip of Mexico's Baja California peninsula. There he owns 5,000 acres and has long had a deal with the government to sell him the surrounding 200,000 acres, enough for a decent Iwasaki-size resort. But the deal was with Mexico's former president. Iwasaki may soon discover that Mexican politicians play by a unique set of rules, especially where potentially lucrative resort real estate is concerned.—**Hiroko Asami**

SHIGERU KOBAYASHI
Yield Gap

Ginza "entertainment" after World War II, real estate in the 1950s, Tokyo apartments in the 1960s. The 1973 oil shock almost flattened Kobayashi, but he dusted himself off and plunged into office buildings. A bold man, Kobayashi is building more office buildings, both in Japan and the U.S., even though his borrowing is already immense—estimated at $5.4 billion.

Robert Wallis JB Pictures

Shigeru Kobayashi

In Japan: another 16 office buildings, a 44% expansion. In the U.S.: 2 new office buildings, in New Jersey and Los Angeles, to go with the nearly $2 billion worth that he has already bought (Los Angeles' Arco Plaza; New York's ABC headquarters; Washington's U.S. News & World Report building). The Los Angeles complex calls for a 75-story skyscraper, a hotel and a community center, all to be done by 1993. Son Takaji Kobayashi does much of the U.S. wheeling and dealing for him.

The Japanese office market in downtown Tokyo is still incredibly tight, with vacancy rates virtually zero. So why buy into the overbuilt U.S. market? Simple: U.S. buildings typically yield 7.5% to 8% initially, and he can borrow the money to buy them in Japan at 6%—in Japan, office buildings yield from 1% to 3%. Kobayashi is worth $3.2 billion at age 61.—**Hiroko Asami**

MASAO NANGAKU
Would A Kannonzo Work In Vegas?

Last year Nangaku made a worldwide splash, buying the Dunes hotel-casino in Las Vegas, a castle in West Germany and a forest on Oahu. He also hit a number of roadblocks.

Kako Kurita

Masao Nangaku

Since he hasn't been licensed as a gambling operator by the state of Nevada, the Dunes casino is shut down. In Germany, where he wants to build a hotel and a golf course at his castle, the government has so far prevented him from developing the site.

Nangaku can afford to be patient: He is worth $1.2 billion. He built his fortune after the war, from a small radio repair shop into a large electron-

ics business, then made a killing in the 1960s exploiting the bowling craze that swept Japan, and got into hotels and ski resorts in time to ride Japan's fantastic real estate boom.

At age 69, Nangaku has just built a gilded *kannonzo*, a traditional statue of a Buddhist goddess, standing some 80 feet high in a parklike setting in northern Honshu. It is thought to be the first gilded *kannonzo* in a thousand years of such monumental size. Besides earning religious merit, the cost becomes a generous tax writeoff, and the shrine draws a potentially profitable trade to the surrounding concessions.

Maybe his pious act will soften the hard hearts of the West German and Nevada governments.—**Hiroko Asami**

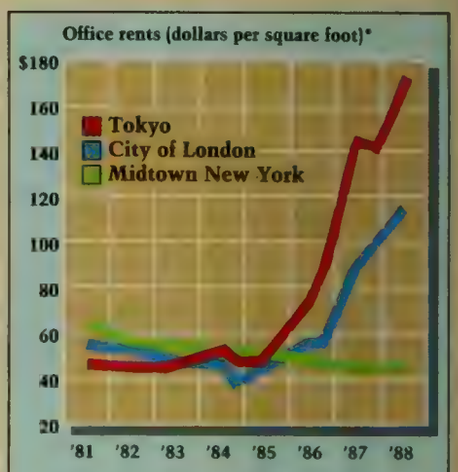
Why Tokyo real estate doesn't go down

At least 18 of the world's billionaires (and untold mere centimillionaires) owe their fortunes to Japanese land-price inflation. Prodded to action by middle-class voters outraged by escalating real estate prices, Japanese politicians declared war last year on property "speculators."

The politicians' weapons: a cumbersome combination of jawboning and price controls.

The government required buyers and sellers to report transaction prices before deals closed and empowered officials to reduce any price out of line with "standard prices" based on sample lots and usually behind the market. Banks were "asked" not to lend to speculators. And the capital gains tax on land sales, already high, was pushed up to 96% on land held for less than two years. This will only serve to keep land off the market.

The results do not speak well for jawboning and price controls. True, some residential property has recently dropped 20% to 30%. And some second-rate commercial land dipped 1% or 2%. But quality residential land is holding its value; there is lots of money around, and Japanese consumers will pay whatever they can for decent housing. And really good Tokyo commercial land continues to rise with rents *(see chart)*.



* Per annum, excluding charges, rates and taxes.

Source: Richard Ellis World Rental Levels: Offices, *Richard Ellis, Inc.*

Even the Japanese, good business people that they are, cannot repeal the law of supply and demand—and tampering with the law will only make things worse.

KITARO WATANABE
Chrysler's Man In Japan

In 1983 the late Kenji Osano, postwar Japan's most potent kingmaker and one of its most influential businessmen, was reportedly frustrated with the sluggish sales of his Chrysler distributorship in Japan. He wanted to cancel the license, but the government feared this would irritate Washington at a delicate time. So Osano sold the distributorship to a younger businessman eager to gain entry into Osano's world. The younger man was Kitaro Watanabe.

Kitaro Watanabe

Chrysler still doesn't sell many cars in Japan, but Watanabe profited greatly from Osano's advice, which was to buy Hawaiian real estate. Investing heavily in the islands, he now owns six hotels there, including Honolulu's Hyatt-Regency. His Hawaiian investments are estimated to be worth nearly $800 million.

Like many of our Asian megarich, Watanabe, new to our list, arrived at affluence by way of severe adversity and tragedy. His family—parents and brothers—was wiped out in the bombing of Tokyo. An 11-year-old orphan in 1945, he was apprenticed by his grandmother to a textile manufacturer. Later he worked in a motorbike shop, which threatened to fold. Watanabe borrowed Y3 million (then worth $8,333, and a great deal of money) and took it over. From motorbikes he moved to used cars, just in time to catch the motorization of Japan, using cash flow from the car business to buy land, often parking lots. This land is the source of his real wealth. Watanabe owns 99,000 square meters in downtown Tokyo, where the cheapest parcels go for around $77,000 a meter. His land is being developed and soon will carry 396,000 square meters of office space. Even with debt estimated at $2.4 billion, Watanabe's land in Tokyo and Hawaii must be worth some $5.2 billion. Incidentally, that's more than Chrysler's market value.—**Hiroko Asami**

HARUHIKO YOSHIMOTO
Be Nice To Bar Girls

Having accumulated several billion dollars, Haruhiko Yoshimoto has taken to writing books on how to make money. Now he has an English version and says he approached a publisher. His formula: Be cheap, save money and invest the savings in real estate. "We don't buy

Haruhiko Yoshimoto

writing pads, which my employees obtain from banks' counters," says Yoshimoto.

The heir of an old Osaka landlord family, after the war Yoshimoto parlayed his key parcel (near the Osaka train station) into what is now a 10,000-square-meter empire. At the planning stage are two hotels—one to be near the New Osaka International Airport—and a marine leisure center to be situated on Shodo Island, on the Inland Sea of Japan.

So what happened with the English-language publisher? Yoshimoto says he wrote in one volume that he has never bought a drink for a bar hostess, and he grouses this ruined the deal. "They claimed that I humiliate hostesses," he grumbles. But he still sells well in Japan. Besides Japanese royalties from his ten books, Yoshimoto, now 64, gives eight lectures a month, at about $3,800 a shot.

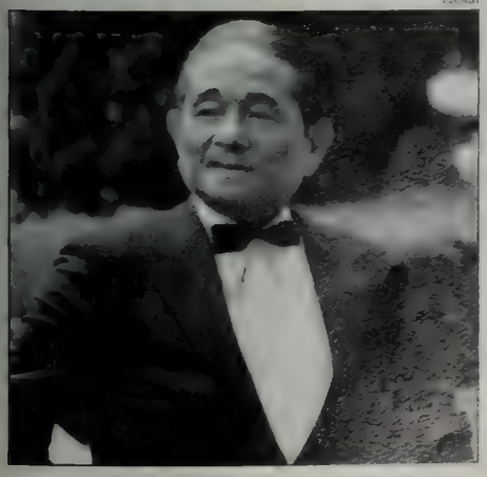
But property remains the core of his fortune, now valued at over $7.8 billion.—**Hiroko Asami**

HIDEKI YOKOI
Illiquidity Trap

Yokoi, 75, has most of his billion-dollar-plus fortune (reportedly based on wartime profiteering 50 years ago but now in real estate) tied up in a ruin of his own making—the Hotel New Japan, once a central Tokyo landmark but now a burned-out shell. The 1982 fire killed 33 people. Yokoi had failed to install fire-prevention equipment as required by law. Convicted of accidental homicide and sentenced to three years in prison, he is out on bail pending appeal.

Meanwhile, redevelopment is deadlocked. Yokoi is asking $231,000 per square meter for the 2.15-acre Akasaka site—$1.8 billion for the parcel.

Zuiyo



Hideki Yokoi

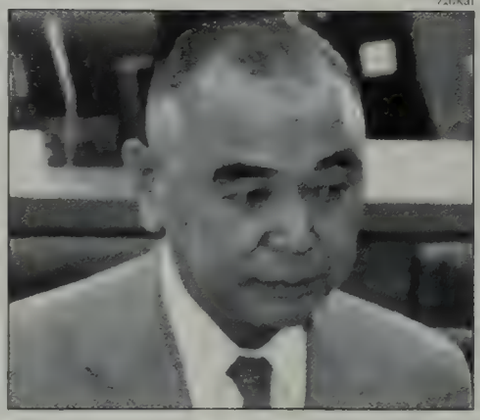
Would-be buyers have withdrawn, and he may have defined the ceiling for Tokyo's stratospheric land prices. Meanwhile Yokoi, who owns 90%, reportedly has difficulties buying out the other 10%, which is enough to block reconstruction. Even in Tokyo real estate can be illiquid.—**Hiroko Asami**

HEIZO KOBAYASHI
Land Lust

One of the reasons Japanese businessmen have been willing to bid land prices into the stratosphere is that history has taught them that land ownership is often the key to survival when things are really bad.

One of 13 children of a hardworking Honshu island silkworm grower, Heizo Kobayashi went to Tokyo, and in 1933, at age 20, opened a charcoal

Zuiyo



Heizo Kobayashi

shop (charcoal then being the predominant heating fuel in Tokyo). To keep busy in the summer, he sold ice. Then came the war, and Kobayashi's prospering little business was finished: In 1940 his shop was merged with other ice shops by government order. Kobayashi had bought no land; without hard assets, the merger terms left him with nothing to show for all his work.

When the war ended Kobayashi was 32, and had to start all over again. He wholesaled gelatin dessert and opened another ice shop, a pachinko parlor and a commercial fishing pond. This time he bought the land underneath his disparate operations.

Kobayashi got into the restaurant business in 1952, when he hired a small Cessna and dropped 10,000 leaflets on Tokyo reading "The democratization of taste, Restaurant Sanpei." His ultracheap restaurant was an immediate success. Since then Kobayashi has upgraded his early Sanpei outlets into a chain called Restaurant Sunpark.

In 1962 Kobayashi began building a chain of supermarkets, then opened discount shops, then added two hotels in Tokyo. With his war-economy experience still in focus, he kept buying the land he built on.

Today Kobayashi owns some 5,500 square meters in Tokyo's Shinjuku district. This property is worth about $1 billion. In 1973 he became an early Japanese investor in Hawaii; he now owns 9,900 square meters on Oahu, where he is developing office space and condominiums.

Now 75, Kobayashi tends the sprawling garden of his home in an exclusive Tokyo residential area. In it, centuries-old trees are planted; exquisitely bred carp, each one costing $8,000 or more, splash the water of a pond. At one corner of the garden is a valuable decorative stone given him by then Prime Minister Hayato Ikeda, Kobayashi's good friend and rival in gardening. Kobayashi remembers that when he was a boy, his father drummed into him the rule "No work, no pay, no dinner." The son added a line: No land ownership, no permanency.—**Hiroko Asami**

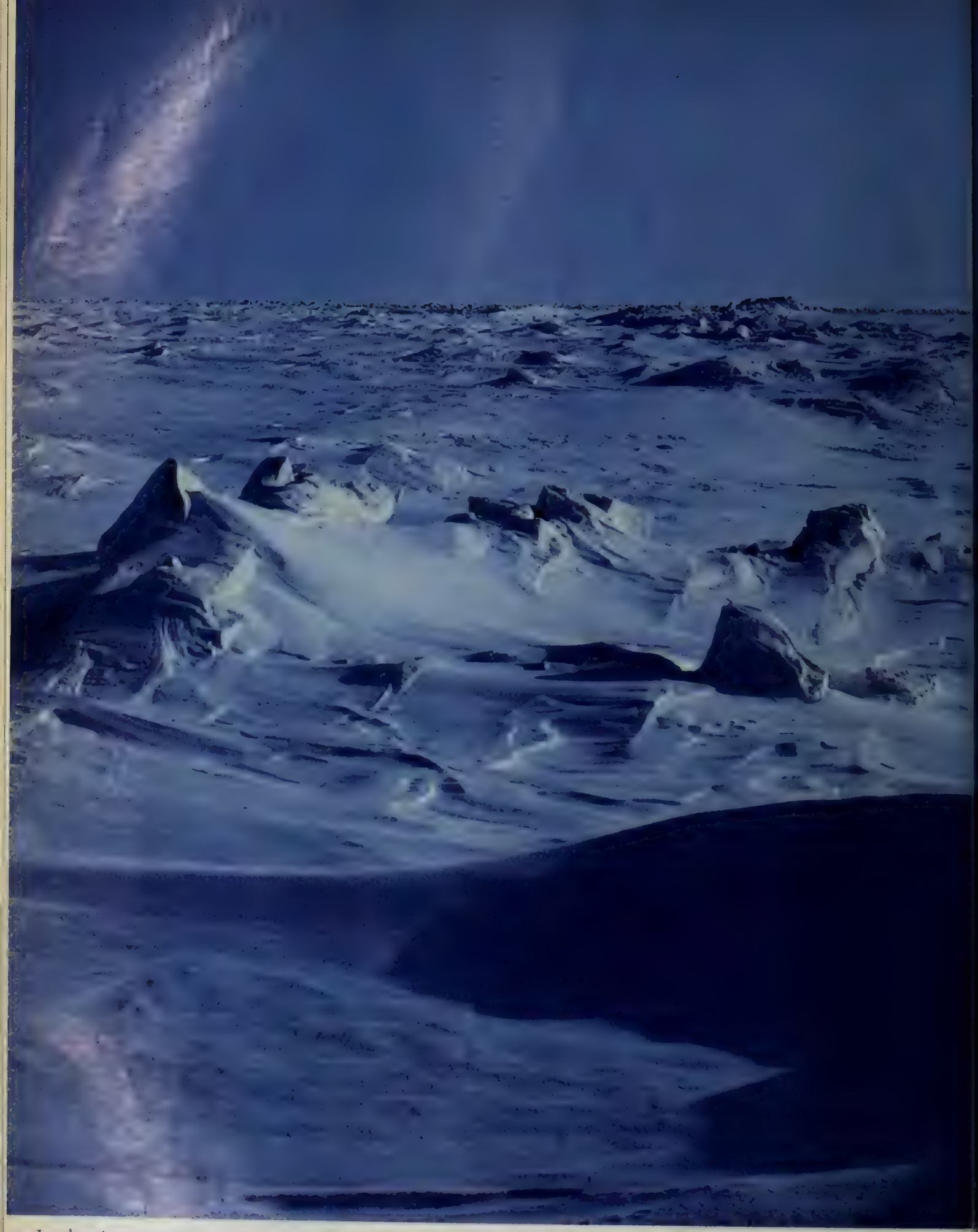
RINJI SHINO
Island Fever

Rinji Shino, 79, is descended from a landowning family dating to the 12th century. He has proved himself a canny buyer since World War II, when the American occupation broke up the vast Shino estate. He undertook to buy it all back, piece by piece, plus any other property he could find—including a vineyard and a small forest outside Paris, and a small, apparently worthless desert island in Japan's Inland Sea.

Rising land values have boosted Shino's estimated net worth from last year's Y300 billion to Y336 billion, about $2.6 billion. Even his small desert island, which he bought in 1960,

Robert Wallis/JB Pictures

Rinji Shino



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now enjoys access, thanks to the newly constructed Seto bridge. Shino is apparently keen to capitalize on the bridge by either selling the island or developing it in a joint venture. If he does sell, smiles Shino, "I would surely be listed as [Japan's] biggest taxpayer."—**Hiroko Asami**

SEIJIRO MATSUOKA
Sweet Dreams

Seijiro Matsuoka built one fortune in import-export during World War I and then a greater one buying (and holding) real estate after the Great Earthquake of 1923.

He says he found that real estate is better: "It brings you money in your sleeping." To him this is important,

Seijiro Matsuoka

since his formula for longevity involves getting plenty of sleep—as much as 12 hours a day. He also recommends a bowl of ground Japanese white radish in the morning, a nightcap at night and a hobby.

His hobbies are buying real estate and collecting art; on the latter he spent Y1.6 billion (about $12.3 million) over the past year alone. It is getting rare for him to attend auctions in person. His latest purchases were at a Chinese ceramic auction in Hong Kong; his winning bids came by telex. But at age 94, it's hard to blame the formula.—**Hiroko Asami**

KEN HAYASHIBARA
Gaijin Wanted

While he reads and practices karate, Ken Hayashibara's real estate and his Hayashibara Biochemical Laboratory, Inc. keep appreciating. The real estate alone is now worth an estimated $1.4 billion. Hayashibara Biochemical is based on the medical maltose business Ken salvaged from his father's candy business and built

Matsumoto Sygma

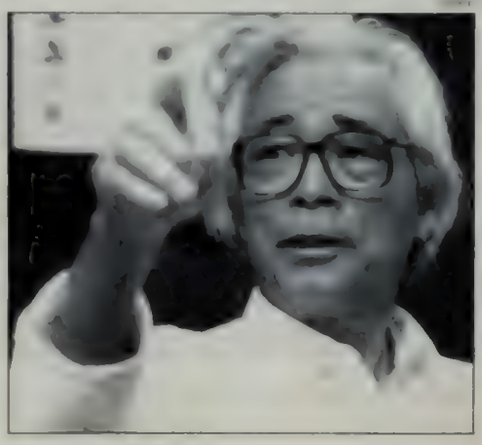
Ken Hayashibara

after his father died in 1961. Now 46, Ken is moving the company into genetic engineering, and hopes to have his first product, alpha interferon, on the market by the end of the year. Hayashibara is looking hard for foreign talent for more high-tech pharmaceuticals. It's not easy though for such a small company to attract serious Western talent. Only three *gaijin* are aboard, and the company has been looking since 1985.—**Hiroko Asami**

HIROTOMO TAKEI
From Sexposés To Golf

Glossy sex, sports and screen stars play as well to the masses in Japan as anywhere and have helped create a net worth estimated at $3.3 billion for Hirotomo Takei. The 67-year-old Takei is a journalist who founded *Asahi Geino*, a highly successful weekly magazine. *Asahi Geino*'s editorial policy, says Takei, is devoted to "the three S's, namely sex, sports and screen."

But there is more than soccer and sexposés to Takei's privately owned Chisan Group. Takei also inherited some real estate in the 1950s. From his growing property and publishing



Hirotomo Takei

base he has bought cookie, fish, meat and other food processing and distribution companies. These tend to throw off steady, if unspectacular, cash flow with which to finance more acquisitions. Takei has also added a moneylending affiliate to Chisan, which he portrays as a nice, friendly conglomerate.

Takei says he despises hostile takeovers and would never try one himself. This is a very Japanese thing to say, but it doesn't quite square with Takei's reputation. Through its lending affiliate, Chisan recently picked up a 29% interest in Kasho, an important but low-profile import-export firm, from a debtor who had fallen on hard times. Through similar means Takei has taken over at least three troubled food companies in the past two years alone.

Also very Japanese is Takei's love affair with golf and hotels. At last count Takei owned 14 golf courses, 32 hotels, 29 apartment buildings and 13 office buildings spread around Japan.—**Hiroko Asami**

Japan Industry

TADAO YOSHIDA
Robber Baron's Disciple

If you look, chances are you're wearing one of Tadao Yoshida's products. Now 79 and debilitated by a stroke, he founded Yoshida Kogyo K.K., better known as YKK, in 1934 and built the company into the world's dominant zippermaker. He did so in part by following the example of one of America's robber barons. "My father's business philosophy was heavily influenced by Andrew Carnegie's autobiography," says the founder's son and YKK's executive vice president, Tadahiro Yoshida, a Northwestern University M.B.A.

In 1987 YKK accounted for 50% of the world's zipper output, churning out 1.1 million miles of zippers, enough to gird the globe 40 times at the equator. The Yoshida family's 30% stake in the $4 billion (sales) enterprise is worth $2.1 billion.

In the 1960s Tadao Yoshida became one of the first Japanese businessmen to venture overseas. He built a local presence and grew with booming garment industries in Taiwan, Hong Kong and Thailand. Today YKK is one

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Tadahiro Yoshida

of the most multinational of Japanese corporations, with zipper factories in 40 countries—including a huge automated plant in Georgia. The company reinvests all of its considerable overseas profits in additional growth. So far it has never repatriated profits to Japan, and gives local managers great autonomy.

"Zippers are a fashion component," Tadahiro reminds us. "If a Belgian jeans manufacturer requires a special zipper, our Belgian company will design it for them." The Yoshida family—seven relatives work in YKK—is now diversifying. In the early 1960s the company used its aluminum alloy technology developed for zippers to move into aluminum building materials. Today the company derives 70% of sales from the aluminum building materials business and ranks second in that industry in Japan.

In 1984 YKK bought a 27,000-acre ranch in Brazil to raise coffee, soybeans and cattle. Explains Tadahiro Yoshida: "My father dreamed of owning a farm."—**Andrew Tanzer**

SEIJI TSUTSUMI

Leftist Makes Good

Seiji Tsutsumi, 61, is a poor billionaire when compared with his brother Yoshiaki Tsutsumi *(which see)*. But, as the chairman of Seibu Saison Group, he heads a retailing empire with 1986 sales estimated at $22 billion. Seibu Saison has lots of debt, but Seiji Tsutsumi's shareholdings in the Group's publicly owned companies and the privately owned Seibu Department Store are worth $1.8 billion.

In 1940 Seiji's father, Yasujiro Tsutsumi, purchased his first department store in Tokyo. Seiji went to elite Tokyo University, where he was a left-wing student activist and an aspiring poet and novelist. (Tsutsumi has published poems and novels.) Those proclivities probably cost him control of the core family holdings, but Seiji did okay. He went to work for Seibu Department Store in 1955 at 28 and assumed control after his father died in 1964—having left most of his real estate, as Seibu Railway, to Yoshiaki.

Perhaps Seiji's days as a leftist taught him what the masses wanted. He built his Seibu into one of Japan's trendiest department store chains. Seiji has also diversified into supermarkets, convenience stores, restaurants, resorts, hotels, travel agencies,

Philip J. Griffiths/Magnum

Seiji Tsutsumi

consumer credit, real estate development—Seibu Saison Group now has over 100 companies.

His feuds with Yoshiaki, his richer half-brother, are a perennial topic in the Japanese business and gossip press.—**Hiroko Katayama**

MASATOSHI ITO

Look To Mars

Masatoshi Ito's 131 Ito Yokado supermarkets and 3,311 7-Eleven stores are by far the most profitable among big Japanese retailers. Ito's public companies are now valued at $20 billion. Ito himself is worth over $2.5 billion.

Despite the stores' growth and the cheap dollar, foreign products still account for only about 8% of Ito Yokado's sales. Ito blames this on the foreign suppliers, Americans in particular. "American food producers don't have a mind for business," he complains to FORBES. He leafs through a report on his desk listing U.S. products and their prices in Japan, and pounces on Coca-Cola. When Ito Yokado buys its Coca-Cola through Japanese distributors, Ito must pay 1.4 times the American wholesale price,

Robert Wallis/JB Pictures

Masatoshi Ito

even after adjusting for transportation and tariffs. Ito wishes Coke and other American suppliers would make more efforts to sell to him directly and cut through the web of Japanese middlemen.

He also wishes American food producers would pay more attention to packaging. "An American company asked me for more sales efforts to increase their sales. But unfortunately, I could hardly guarantee it. Their products are canned goods, and the Japanese in general dislike using can openers."

Ito does give high marks to one U.S. vendor: Mars, Inc. Sales of Mars' M&M's candies have rapidly increased thanks to low price and high quality. Mars, says Ito, shows how much opportunity there is in the Japanese market.—**Hiroko Asami**

AKIKAZU FUJISAWA

Consumer's Best Friend

He's the man who bet his future on forcing a breakthrough against Japan's notoriously inefficient distribution network—and won. Fujisawa, 52, son of a rice farmer, is a high school graduate who moved to Tokyo with his family in 1960.

Fujisawa had the fresh eyes of a newcomer. He foresaw the surge in sales of automobiles, home appliances and cameras in the 1960s and 1970s. He started as a wholesaler of cameras and camera equipment—the product his slender means could stock. For an edge, he dealt strictly in cash, both buying and selling, so he could cut his price. He was an early discounter in a land that frowned on discounting.

Appalled retailers in Japan's comfy, high-priced distribution network

Robert Wallis/JB Pictures

Akikazu Fujisawa

pressured suppliers to boycott him. But the consumers loved him. By 1975 he was able to open his now-famous Yodobashi Camera in front of the busiest Japan National Railway station, in Tokyo's Shinjuku district. He opened more stores, added watches, calculators and hi-fi. And from 1982 video and home appliances, all still bought—somewhere—for cash or short-term deferred payment. Fujisawa bought many of the sites he uses, and that real estate is good for a third of his estimated billion-dollar fortune. Next step? Maybe European-style hypermarkets *(see Bouriez and Ito)*.—**Hiroko Asami**

KANICHIRO ISHIBASHI

He Didn't Flinch

Akira Ieiri, the president of Bridgestone Tire, has been quoted as saying that "only three producers could survive in the global tire market in future."

His boss, Kanichiro Ishibashi, 68, whose father founded Bridgestone, agreed that to become one of the three survivors Bridgestone would have to expand through acquisition. It bid

Zaikai

Kanichiro Ishibashi

$750 million for 75% of Firestone, then, when Italy's Pirelli topped that bid, raised the ante. Ishibashi (literally "stone bridge") huddled with Bridgestone's professional managers for a week. Then came their unflinching response: a $2.6 billion offer for all of Firestone. Pirelli threw in its hand. Bridgestone had the prize—but at a huge price.

Firestone's U.S. factories will cost hundreds of millions more to modernize. Bridgestone expects earnings to be depressed for three or four years. But now Bridgestone is the third-largest tiremaker in the world (behind Goodyear and Michelin), with 16% of world volume. Firestone adds a valuable foothold in Europe, as well as U.S. plants to serve the Japanese carmakers setting up here.

The Ishibashi family's 14% stake in Bridgestone was recently worth $880 million.—**Hiroko Asami**

KEIZO SAJI

Foot-In-Mouth Problems

Suntory, Japan's biggest distiller, is staggering. Its whiskey sales have been dropping as much as 4% a year. Last year Britain's Guinness Plc. switched sales agents in Japan. There went I.W. Harper bourbon, Suntory's

Philip J. Griffiths

Keizo Saji

biggest, most heavily promoted import brand. And its Suntory Old, once the bestselling Japanese whiskey, is reckoned an old-fogey drink by the young generation. A tax on imported liquor that long sheltered Suntory and other Japanese distillers will be reduced next spring. Foreign distillers are likely to gear up for more sales, if possible through their own channels. In the beer wars, rival Asahi has a bestseller in Asahi Super Dry.

Suntory Chairman Keizo Saji, 68, has been taking his foot out of his mouth. At a February conference on moving Japan's capital from Tokyo to reduce overcrowding, Saji asserted it shouldn't go to Tohoku, the northern region of the main island, because the "cultural level is so low over there." Uproar followed. Saji apologized profusely, but there's a highly publicized boycott against Suntory products in Tohoku.

At current Japanese price/earnings multiples, Suntory would still be worth billions. Privately held, mostly by the Saji family, the company is clearly still very valuable. But it needs to come up with new products and a new image.—**Hiroko Asami**

KUMAGAI FAMILY

The Caretaker

When Santaro Kumagai set up his construction company back in 1938, he took Jinichi Makita, his trusted lieutenant from another company, with him. That Kumagai Gumi is today one of Japan's big six international construction firms owes mainly to Makita. The boss pursued a political career and named his son Tasaburo Kumagai, now 81, president of the company. But Tasaburo, too, had politics in his blood, and wrote poetry in his spare time.

While political clout never hurts a construction firm, business talent is also required. Luckily, Jinichi Makita proved a tough-minded businessman. He organized a top-flight collection of subcontractors, bought into major projects, even set up a factory to produce construction equipment because what he could buy didn't suit him. In 1968 Tasaburo made Makita president in name as well as fact. He retired from the presidency in 1978 so that Tasaburo's son Taichiro Kuma-

Robert Wallis/JB Pictures

Taichiro Kumagai

gai, now 55, could take over. Makita died in November, at age 94, and left behind a construction giant that is building harbor tunnel projects for Hong Kong and Sydney, and the $228 million Broadway Crown Plaza hotel/office complex among numerous other projects in New York and elsewhere.—**Hiroko Asami**

TAKENAKA FAMILY
Meet The Competition

United States firms seeking construction contracts in Japan better take the measure of the Takenaka family's Takenaka Komuten, which imports construction knowhow and sells it to fellow Japanese. The Takenaka name means a lot in Japan; ancestors built the famed and beautiful

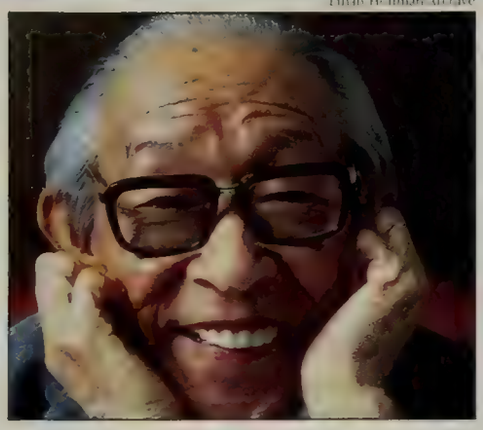
Toichi Takenaka

Nagoya castle. Recently, under their 16th headman, Toichi, 45, the family firm imported American airdome technology to build their locally famous "Big Egg," or Korakuen Stadium. For the winning bid to build a second National Theater—Japan's first opera house—they sent engineers to West Germany's Hanover Institute of Technology. The list goes on.

Takenaka Komuten made Y9.8 billion aftertax in 1987, up 26%, on Y811 billion in revenues. That razor-thin 1.2% profit margin is typical in Japanese construction. Just imagine trying to bid against them and stay solvent.—**Hiroko Asami**

KONOSUKE MATSUSHITA
Nonmonetary Asset

The vast consumer electronics empire Matsushita founded continues to prosper, thanks to strong demand in the domestic market and excellent management (*see* FORBES, *July 13, 1987*). Domestic sales for the fiscal year ended March 1988 were Y2.9 trillion, overseas sales about Y2 tril-



Konosuke Matsushita

lion—a total of nearly $39 billion. Projections for this fiscal year call for a 10% increase in domestic sales against a 1% drop in exports, assuming the dollar averages Y120 per $1. Matsushita will accelerate overseas production this year too; some $4.3 billion worth of products will be manufactured outside Japan, up 24% from last year.

Matsushita built the company through a brilliant mix of price-cutting, long-range planning, and employee relations designed to make every worker feel responsible for the success of the whole enterprise. At 93, he lives at the Matsushita Hospital, built for the employees. He holds over $2 billion of stock and enjoys the nearly universal veneration of his countrymen.—**Hiroko Asami**

KENKICHI NAKAJIMA
Master Gamesman

Kenkichi Nakajima figures he's doing the world a favor: "To stabilize society, pachinkos contribute much," he says. "They really soothe people's anxiety."

Pachinko, as anyone who has visited Japan knows, is a pinball-like petty gambling game on which an estimated 29 million Japanese of all stripes—

Kenkichi Nakajima

salarymen, college students, housewives—spend maybe $80 billion a year. Nakajima is a wicked player and claims he can routinely make $385 in a five-hour sitting.

But that's not how Nakajima, 67, has amassed his billions. That he's done by becoming the predominant manufacturer of pachinko machines. His company, Heiwa Kogyo, has 37% of the market (the rest is split among 15 rivals). Last year Heiwa reported $117 million pretax profits on revenues of $428 million)—an astounding 27% margin. In September Heiwa will go public on Tokyo's over-the-counter market, where it will probably be valued at $3 billion. Nakajima owns 95% of Heiwa.

Nakajima got into pachinko in 1949 by opening a parlor. In 1960 he began making machines for his and other parlors and, within the decade, was dominating the market. Heiwa's 87 engineers develop new machines every two or three months, thus keeping ahead of fickle public tastes while not running afoul of government regulations that require pachinko to be a "skill" game. Research and development amounts to 7% of sales.

Nakajima is a game player par excellence. Aside from pachinko prowess, he took up golf in his 40s and became a scratch player in six months. He used to play go, the traditional Japanese board game roughly equivalent to chess, for up to 63 consecutive hours. Now 67, he's slowed down to being ranked at the top in a private mah-jongg league.

Nakajima wants to export pachinko machines, and he plans an assembly plant in the U.S. He says China's former vice premier, Deng Xiaoping, has approached him. Nakajima promised to send Deng ten machines as a gift. As for how best to play pachinko, the master gamesman advises: "Don't be greedy."—**Hiroko Asami**

YASUO TAKEI
Up From Usury

As a young man Yasuo Takei, 58 and new to our list this year, had a shadowy background. As a young railroad worker he reportedly was shot by local gangsters in a quarrel. Around 1951 he went to Tokyo and worked at a pachinko parlor. Until the government clamped down, he was a black market dealer in rice, the staple of the Japanese diet.

By the early 1960s Japanese consumers were desperate for credit to

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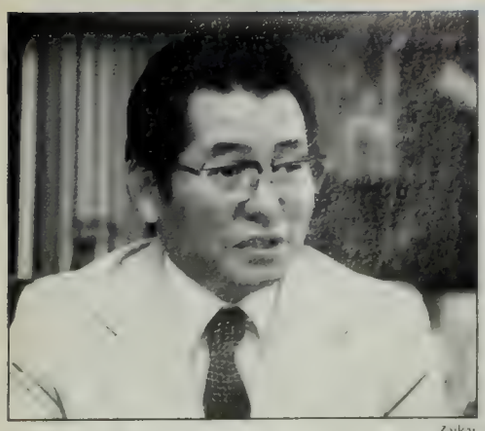


Zukai

Yasuo Takei

buy the consumer durables finally becoming abundant. Banks would not lend without hard collateral like real estate or the life savings of elderly parents.

Thus were created Japan's usurious *sarakin*, who lent money to consumers at rates up to 109.5% per annum and often employed *yakuza* (gangsters) to intimidate slow payers. The intimidation seems to have had its effect: In 1978, a bad economic year, about 180 debtors of *sarakin* committed suicide and 2,203 disappeared.

Takei became a *sarakin* and built a large organization now known as Takefuji. In 1978 the government began clamping down on the *sarakin* by dragging commercial banks into consumer lending. In addition, *sarakin* lending rates were limited to 73% annual interest, soon to be reduced to 40%.

Few *sarakin* could compete, but Takei survived and prospered. He cut the number of his lending offices from 521 to 374 and has installed 221 automatic teller machines. Thus Takei could compete with the banks, and, to add respectability, he hired such august bankers as Yoshio Akiyoshi, formerly a vice minister at the Ministry of Finance.

Takei, the *sarakin* king, has a personal net worth of $1.5 billion, including his private holding company.—**Hiroko Asami**

RYOICHI JINNAI

Once A Marxist, Always. . . ?

This onetime Marxist agitator went on to become what he once preached against: a moneylender. The son of a poor farmer, Jinnai, now 62, got through college and came out a radical. He found a government job at the Ministry of Agriculture, but devoted himself to labor union activity and advocating Marxism. In 1950 he lost his job in a purge of leftists.

To feed himself, he peddled shirts and became a caseworker for a Christian welfare organization. He looked around, it is said, and observed salarymen in the Osaka area where he lived who were spending all their income on drinks and girls. Such people were often desperate for ready cash. Jinnai became a moneylender—at rates that even the most greedy capitalist would consider usurious.

He almost went under in 1984, when the government was clamping down on his version of capitalism, but his supporting banks backed him through his cash emergency and he recovered. Now his Promise is the third-largest *sarakin*.

The equity of Jinnai and his family, given Japanese multiples, is $1.7 billion.—**Hiroko Asami**

HISASHI ISHII

Japan's Bernard Baruch

In his autobiography, Hisashi Ishii, a new Japanese entry this year, wrote of his experience in Tokyo just after World War II: "I felt lost, giving up the long-cherished dream." Ishii's dream had been an "intellectual occupation." Born the fifth son of a poor

Zukai

Hisashi Ishii

farmer in Fukuoka Prefecture, he worked from the age of 15 in a local steel mill through World War II. After the war, he opened a *dorayaki* stand (*dorayakis* are inch-thick cakes baked and prepared in front of the customer on the street). He soon saved Y30,000, the equivalent today of $230 but back then a respectable sum, and set out for Tokyo to become a lawyer—the intellectual occupation he dreamed of.

But postwar Tokyo was so crowded that newcomers were prohibited entry unless they took a needed occupation; Ishii became a policeman, and his dreams of law school vanished as inflation ate away his paltry savings. That's when he changed course and decided on a life of moneymaking.

Quitting the police force, Ishii began buying and selling on Tokyo's rampant black market and soon had some capital. By 1948 he was ready to play the Tokyo Stock Exchange. "I worked hard, I memorized all the daily transactions and the historical data of each stock," he wrote. No doubt his black market trading experience also helped. In any case, he predicted the market crash of March 1949, and sold out on the previous day at a huge profit.

Ishii's market prognostications gained fame. Around 1952 Ishii predicted a big bull market—the Japanese Dow Jones average was at 240 and proceeded nearly to double in the following year. And for 1953 Ishii predicted a crash in February—that selloff is remembered to this day as the Stalin crash because it coincided with the Russian leader's death. In 1957 Hisashi Ishii established his own small brokerage.

Ishii is 65, and the Japanese Dow is around 27,000. For the fiscal year ended September 1987, his brokerage, Tachibana, reported Y6.86 billion of profits ($53 million), and the 81% owned by Ishii and his family is worth around $1.3 billion.—**Hiroko Asami**

MASAHITO OTSUKA

Lucky In War

Japanese businessmen have always been adept at going to the U.S. in search of talent and technology, and Taiho Pharmaceutical, the main company of the Otsuka family's group, is no exception. Otsuka has set up several laboratories overseas, in Canada, West Germany and in Seattle. It generally sends Japanese technicians, say two or three at a time, to run the labs and keep their ears to the ground. Otsuka heavily concentrates on anti-

Kaku & Walli/AR Pictures

Masahito Otsuka

cancer drugs, which now account for more than half Taiho's sales. Masahito Otsuka's and his family's stock in Taiho Pharmaceutical is worth about $1.7 billion. That puts the clan a long way from hard times after WWII, when Otsuka's young company almost went bust. Fortunately for Otsuka, the Korean War broke out in 1950. The war triggered a boom in the injectable drugs he manufactured, and Otsuka, now 71, was saved in the nick of time.—**Hiroko Asami**

SHOJI UEHARA
Heir Today, Hair Tomorrow

Shoji Uehara, 60, is chairman of Japan's Taisho Pharmaceutical, which sells at a rarefied 76 times earnings, valuing the Ueharas' holding at $1.5 billion. But the family cannot, and probably won't, rest on its laurels. Taisho heavily depends on over-the-counter drugs, an ever changing business that now accounts for 80% of total volume. Lately the Ueharas have won the Japanese rights to Upjohn's much-publicized hair-growing agent, Minoxidil. Taisho hopes to have it on sale in Japan in early 1990. Taisho is also working to gear up the ethical drug side, with a target of tripling sales in this business to $385 million in 1995.

Robert Wallis/B Pictures

Shoji Uehara

Meanwhile, Shoji is preparing for succession by naming his son-in-law Akira Uehara (who took the family name) Taisho's president. Akira's brother has married a relative of Princess Michiko, the Emperor's daughter-in-law. This association with Japan's royal family, tenuous though it seems to outsiders, has added luster to the money behind the Uehara name.—**Hiroko Asami**

KIYOSHI SAGAWA
Watch Out, Federal Express

Sagawa ran away from a prosperous home at 17 (stepmother problems) and, with two bicycles, started a courier business. The Sagawa Kyubin group long ago spread all over Japan using an incentive system whereby each courier was made responsible for obtaining new orders and collecting money as well as making deliveries, just as Sagawa himself originally was. His several companies today do a couple billion dollars' worth of business a year; his equity must be at least $2 billion.

Kyodo Press

Kiyoshi Sagawa

Sagawa, 66 and presumably happy in his huge (by Japanese standards) home in Kyoto ("Earn enough money so you can afford to waste some," is his motto), is moving into international multimodal transport: plane, train, ship, all taking his business far beyond Japan.—**Hiroko Asami**

Korea

CHON BROTHERS
Identity Crisis?

The Chon brothers—Chon Jin Shik, 56, and Chon Yong Shik, 62—call themselves North Koreans. North Koreans? The brothers, new to our list, were born in Pusan, in the south, and moved with their family to Japan in 1941. At war's end they worked the black market. In 1951 they opened a pachinko parlor in Fuchu city, a conservative town that would seem especially unpromising for Koreans. But the Chons put Japanese employees in the front, and eventually came to own every pachinko parlor in town. In 1958 their Sakura (Cherry Blossom) group opened its first big discount food-and-sundries "superstore." Last year Sakura group sales topped Y56.4 billion ($434 million), profits $21 million. At prevailing multiples in Japan, the group would be worth some $1.3 billion.

The Chons say they have a joint venture with North Korea's Kim Il Sung gang that will soon export 2 million pieces of clothing a year, some to West Germany, Canada, Hong Kong and Japan.

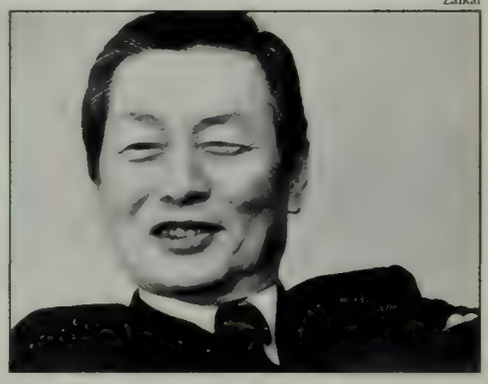
"We are not Communists, but we wish the Korean peninsula to be unified some time in the future," Chon Jin Shik told FORBES. He should be taking his message to the isolationist dictator who runs the shabby country.—**Hiroko Asami**

SHIN KYUK-HO, A.K.A. TAKEO SHIGEMITSU
A Korean Disney

By whichever name, Shin Kyuk-ho (his original Korean name) is probably the only man in the world to become a multibillionaire twice, in two separate countries. His total net worth is over $8 billion.

In Japan, Shin/Shigemitsu's 19-company, $2 billion (1987 sales) Lotte Group includes confectioneries, fast foods, delicatessens, vast real estate—and a pro baseball team. In Korea, his 24-company ($3 billion sales) Lotte Group includes hotels, department stores, confectioneries, fast foods, petrochemicals, aluminum, construction, trading, banking—and a professional baseball team.

Zaikai



Shin Kyuk-ho

Shin, now 65, moved from his native Korea to Tokyo in 1943, an aspiring novelist who studied engineering because it was a draft dodge during the war. "I despised those who made money," he tells FORBES. After the war he began making hair cream and

soap. In 1948 he added chewing gum, buying his ingredients on the black market. "I thought the only way to win was to make the best quality." From chewing gum he went on to chocolates.

In 1967 Shigemitsu returned to South Korea and is today counting heavily on his $1 billion Lotte World, scheduled to open for the Olympics. The 20-acre, four-story theme park is covered by one of the world's largest glass domes, and will be surrounded by department stores and hotel towers. The theme park will feature hot air balloons, fiber-optic fireworks, waterfalls and more. Shin expects 500,000 visitors a day to the complex. "Korea is motorizing," he says. "On the weekend families are going out together more. People will remember me by Lotte World."—**Andrew Tanzer**

LEE BYUNG-CHULL FAMILY
In Good Hands

Before he died in November at 77, Lee Byung-Chull, the legendary founder and chairman of Samsung, defied Confucian tradition by appointing his third son to run the highly profitable *chaebol*. Intensely competent, Lee Kun-hee, 46, will nonetheless face formidable hurdles in running the $24 billion group, with affiliates in consumer electronics, retailing, hotels, insurance and other businesses from textiles to food, from shipbuilding and construction to semiconductors, genetic engineering and aerospace.

"I have a dream to build Samsung into a world-class company, a genuine multinational," young Lee told FORBES in March. He added, "If we

H. Edward Kim

Lee Kun-hee

don't move into more capital- and technology-intensive industries, our very survival might be at stake." The same is true of Korea. As founder Lee said before his death: "Samsung is a social entity. Its rise and decline is directly related to the rise and decline of the state."—**Diana Fong**

CHUNG JU-YUNG FAMILY
Peace? Or A Lull?

Hyundai's tough little Excel cars continue to dazzle. Excel subcompacts are so cheap that General Motors and Ford sued Hyundai for dumping in Canada; Hyundai won the case in March. In the U.S. sales are expected to top 300,000 this year. Come fall, Hyundai will introduce the Sonata, a midsize front-wheel-

H. Edward Kim

Chung Ju-yung

drive model that the company sees as the next step in becoming a true world automotive competitor.

With success comes problems—in this case, labor unrest. Hyundai weathered one wave of nationwide strikes that crippled auto production last year. A second wave began in May, when Hyundai workers demanded a 48% pay raise and rioted when Hyundai executives were charged with kidnapping a union organizer.

Chung Ju-yung, 72, Hyundai's passionately antiunion founder, turned the title of chairman over to younger brother Chung Se-yung, 59, last year. Chung Se-yung, a U.S.-educated internationalist, has said publicly that he is willing to work with unions. But founder Chung Ju-yung is believed still to wield power, and is grooming his sons to take over the company. Labor peace? Or merely a lull in the fighting?—**Diana Fong**

Taiwan

RUMOR MILL

The Taiwan Stock Exchange is exploding. In December 1986 the market index was 1039; in precrash October, 4700. The crash knocked it to 2300, but it's now back near 5000.

"Ninety percent of the trades come from individual investors," explains Blair Pickerell of Jardine Fleming Taiwan. "Most are short-term oriented and react to rumors rather than fundamentals." Pickerell notes that there is plenty of cash around and says that with the rapid appreciation of the NT dollar against the U.S. dollar, there's little incentive to invest outside Taiwan, even though foreign exchange controls have been lifted.

Dangerous? You bet. Of the 140 stocks on the Taiwan Stock Exchange, 15 account for over 50% of the entire market capitalization. The government holds 25% of all listed stock, family and corporate groups, 45%, leaving only 30% to the public. There is very little regulation. It adds up to a very thin market for companies that sell at an average price-earnings ratio of 30.—Diana Fong

HSU FAMILY
Why Quotas Are Dumb

Before Mao Tse-tung's Communists drove Chiang Kai-shek's Nationalists to Taiwan, Y.Z. Hsu, now 76, ran a small knitting factory in Shanghai. Last year the Hsu family's Taiwan-based FET Group (for Far Eastern Textile) earned $200 million aftertax on $1.4 billion in consolidated sales. New to our list, the Hsus are worth at least $1.1 billion.

In 1957 the Hsus began diversifying—into cement production, and

Excellence Magazine

Y.Z. Hsu *Douglas Hsu*

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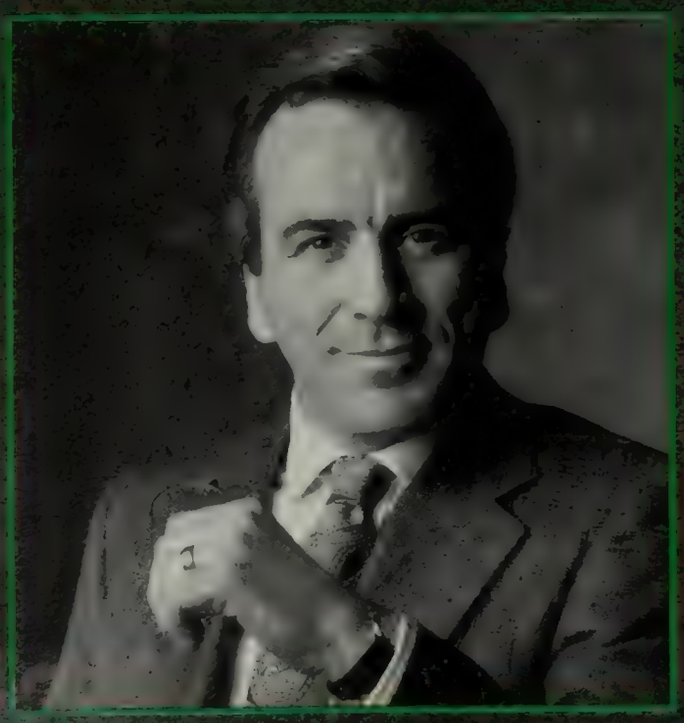

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then into department stores; theirs is now the island's only chain.

But FET Group's core is still textiles; direct exports amount to 50% of volume. Douglas Hsu, 45, the founder's U.S.-educated eldest son, is president of FET Group. How does Hsu cope with U.S. textile protection? "We sell to 40 countries and don't rely on any one market for exports," and he adds: "Quotas are only numerical, they don't apply to the dollar amounts you can export."—**Diana Fong**

Y.C. WANG
Unrelaxed

Y.C. Wang's built-from-scratch Formosa Plastics Group is the world's largest producer of polyvinyl chloride, the plastic polymer used in everything from pipe fittings, vinyl footwear and textiles to artificial leather. Wang's business is a vertically integrated network of three listed companies involved in every aspect of PVC processing and production. Vast by Taiwanese standards, it is big even

Ed Kashi

Y.C. Wang

by U.S. standards: It earned $695 million pretax on $5.3 billion in sales, up from $379 million pretax in 1986. These gains came despite an appreciated Taiwanese currency that hurts exports, and environmentalist opposition to building an important new naphtha cracker plant (pollution is a big issue in Taiwan—the rivers are filthy, the air foul from hell-for-leather development). Worth around $4 billion and now 71, Wang nevertheless says: "Once one relaxes, he will be left behind."—**Diana Fong**

CHANG YUNG-FA
Nonpolluting Diversification

"The chairman likes hotels. He wanted to diversify into nonpolluting businesses," says an Evergreen Group spokesman, explaining why Evergreen

Ed Kashi

Chang Yung-fa

founder Chang Yung-fa will soon break ground on a $350 million deluxe resort hotel in Taichung and another hotel in Hong Kong. Other Evergreen real estate includes an office building in New Jersey, another New Jersey site across from New York's World Trade Center, and a commercial development in Hamburg.

Still, container shipping accounts for more than 90% of Evergreen Group profits. The company is a hot item on the manic Taiwan Stock Exchange, where the Chang family's 76% or so of Evergreen Marine, the largest and only listed enterprise in his 14-company group, is valued at $1.65 billion. Neither the cheaper dollar, weak ocean freight rates nor a $30 million U.S. fine in March against one Evergreen company for carrying marijuana through the Gulf of Mexico has hurt the company's reputation among Taiwan's investors.—**Diana Fong**

TSAI WAN-LIN
Where Life Is Expensive

Cathay Life Insurance was founded by Tsai Wan-lin in 1962. Tsai has been careful to command the respect of Taiwan's investors, and they have rewarded him. Cathay, the largest family-controlled stock on the Taiwan exchange, has a market cap of $8.1 billion, higher than Bankers Trust or Chase Manhattan. The Tsai family has an estimated 70%, worth $5.6 billion, making Cathay Life one of Taiwan's most thinly traded stocks. That partly explains its enormous price range last year—NT$123 a share to NT$777 through last October. So does the volatility of the banking sector, up 675% over the same period. But at least Cathay's stock price bears some resemblance to the company's fundamentals.

According to a banking analyst in Taipei, Cathay Life Insurance, which has a one-third market share, holds commercial real estate assets for rental and also invests in listed companies. Taiwan's rising tide, in short, is pushing Cathay Life's value—and the Tsai family's net worth—up even faster.—**Diana Fong**

Tsai Wan-lin

Excellence Magazine

Hong Kong

SIR YUE-KONG PAO
Sir Y.K., Please Call Your Office

Billionaire sea lord Sir Y.K. Pao hasn't been seen in public for months now. Friends say he was treated for cancer in the U.S. and has been resting in Hawaii. But rumors of his death spread one day, driving up the price of his listed Wharf Holdings, a property conglomerate, apparently on the grounds that Sir Y.K.'s management has been complacent. Company officials, meanwhile, insist that Sir Y.K., 70, is simply "very busy."

Stuart Franklin Sygma

Y.K. Pao

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There is much to be busy on. Sir Y.K.'s 14.99% of Britain's Standard Chartered Bank is now worth roughly half the sterling he paid for it. He lost a bid to develop the biggest container port terminal in Hong Kong to Li Ka-shing. Even Sir Y.K.'s Dragonair, the Hong Kong airline, principally to China, is mired in a battle with aviation authorities and Swire Group's Cathay Pacific.

What of Pao's World-Wide Shipping? Says Helmut Sohmen, Sir Y.K.'s son-in-law and head of aviation and shipping interests: "It will be a few years before we expect the [ocean freight] market to be a good one." But Pao isn't to be counted out yet. Sohmen values the nearly debt-free 53 ships at $750 million, and Wharf Holdings sits on a pile of cash.—**Diana Fong**

LI KA-SHING
Li's Not Leaving?

Through his Cheung Kong Holdings, Li Ka-shing controls a pyramid of companies that make up over 15% of Hong Kong's stock market capitalization. Li is worth more than $1 billion, but is even more powerful than rich.

Li, 60, has been pyramiding overseas, too. Last year he bought control of Canada's Husky Oil for $418 million, partly through personal investment, partly through Hutchison Whampoa, which he controls. Husky in turn has been buying other companies. This April a Li consortium won the bid to develop Vancouver's 200-acre Expo site.

But don't think Li is leaving Hong Kong for Canada. Last September Li companies acquired 4.9% in the U.K.'s Cable & Wireless, which operates the colony's telephone system. "Hong Kong represents 90% of our activities," says Hutchison Whampoa's Simon Murray. "We've just poured some HK$7 billion [$897 million] into a container port terminal. For every dollar we invest abroad, $3 goes to Hong Kong."

Li Ka-shing

Market? Or firing squad?

Hong Kong's problem is simple to state. No one knows how the communists will treat the colony's capitalists when Beijing takes over the territory in 1997.

The Chinese know how unpredictable events are. Fifty years ago who would have guessed that Mao Tse-tung would conquer and rule in 1949? Or that in 1966 crazed ex-students brandishing red books would bring on the Cultural Revolution and relegate Deng Xiaoping to imprisonment in the countryside? Or that Deng would later return to foment a market revolution?

Now imagine you're a Hong Kong billionaire grappling with the colony's fate after 1997. Will it be the gateway to a billion-customer virgin market? Or the setting for a firing squad?

CHENG YU-TUNG
Smiles To China, Dollars To America

Cheng controls Hong Kong's New World Development, which owns the world-class Regent Hotel. A small-scale jeweler some 30 years ago, he married his way into Chow Tai Fook Jewellery, which is now the largest retailer in town. He also has interests in neighboring Macao. In May, Cheng, Li Ka-shing and Lee Shau-kee sold most of their 12% stake in Hong Kong Land at a nice premium after a showdown with Jardine Matheson taipan Simon Keswick.

What's Cheng's take on Hong Kong's future under the communists? Speaking in his native Cantonese, Cheng predicts great things for the colony, and notes that New World is the largest hotel operator (as opposed to owner) in the People's Republic. "I believe in Hong Kong," said Cheng. Up to a point. He also owns a third of Houston's Allright Auto Parks, the world's largest parking lot operator, and has joined Li Ka-shing and Lee Shau-kee in a plan to develop Vancouver, B.C.'s 200-acre Expo site. He wants more property deals in North America.—**Diana Fong**

KWOK TAK-SENG
Thank God For The Middle Class

Kwok Tak-seng's Sun Hung Kai Properties group has only one-fifth the market capitalization of the conglomerate controlled by Li Ka-shing, Hong Kong's best-known property developer. But size isn't everything, and Kwok has fared far better since the Oct. 19 stock market crash. His secret weapon: Hong Kong's vi-

South China Morning Post

Kwok Tak-seng

brant middle class. "The small to medium residential real estate market, where SHK Properties concentrates, was little affected by the crash," explains Gisa Tse, a Smith New Court Far East analyst. "With low mortgage interest rates [9.5% in Hong Kong] and rising salaries, there's increasing demand to purchase middle-income flats."

Kwok used the crash to bargain-hunt and raised his company's stake in New Town Development, a publicly traded SHK subsidiary, from 72% to 75%. In November Kwok, now 78, and sons Raymond, Walter and Thomas—all British-educated managers in their 30s—also converted their preference shares of SHK to common, another bet on recovery. The Kwoks' stake in the publicly traded parts of the business is now $963 million and rebounding (it was $1.1 billion pre-crash). Privately, they also own at least $110 million of commercial property in San Francisco.—**Diana Fong**

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KADOORIE FAMILY

Two Coups For Kadoorie

Talk about timing. Only a few days before Black Monday sent the Heng Seng stock index plunging over one-third, a banking consortium representing the Kadoories—Lord Lawrence, son Michael and Lawrence's brother Horace—sold one-third of family-controlled Hongkong & Shanghai Hotels to public and private investors for $257 million. A few days after Black Monday, the shares were worth $140 million (they're now worth around $217 million). The coup was especially sweet, says Citicorp International's Hong Kong director, Stephen Clark, because the Kadoories themselves were obligated to buy the

Robert Gale, The Stock House

Lord Kadoorie

shares if they couldn't be placed by Oct. 31—at a price of $288 million.

Then, a second coup. After the market collapsed, the Kadoories bought in more Hongkong & Shanghai shares, and increased their stake to 35%, lately worth $288 million. As a result, the company is securely back in family control after a raid last summer by Joseph Lau. The family also owns a 30% stake, worth some $784 million, in China Light & Power, which is building a controversial nuclear power plant at Daya Bay in Canton (but that's another story). The Kadoories, says Schroders Asia Securities' Eugene Law, "are becoming more aggressive and expanding overseas; before Joseph Lau came along, they were conservative, complacent."

Not entirely true. Lord Kadoorie, 89, born in Hong Kong, comes from an old Iraqi Jewish merchant family. He keeps a ragged Humpty Dumpty pillow in his office. The pillow is there to remind him how fragile a family fortune can be.—**Diana Fong**

RUN RUN SHAW AND FAMILY

China Mogul

Asked by the *South China Morning Post* what types of films he liked, Sir Run Run Shaw replied: "I particularly like movies that make money." Sir Run Run and his late brother Runme (he died in 1985) made hundreds of films—horror, martial arts and soft porn—and a lot of money. They left Shanghai for Singapore in the early 1920s, established a cinema chain and cranked out silent films. After World War II the brothers dug up S$4.5 million worth of gold and jewelry they'd buried in a vase in their Singapore garden and set up Shaw Brothers studios in Hong Kong, where labor was cheap.

But by the late 1970s the popularity of home videos began to kill the Shaws' theaters, now down from a peak of 300 to 160. But Sir Run Run,

Michael O'Neill

Sir Run Run Shaw

seeing Hollywood conquering Asia, acquired lucrative distributorships instead—James Bond, Rambo and Rocky, *Fatal Attraction, The Last Emperor*. He also turned to television. Every day 80% of Hong Kong tunes in to his station, HK-TVB. Early last year Sir Run Run sold 24% of it to Australia's Alan Bond for $180 million. With cronies Li Ka-shing, Cheng Yu-tung and others, he is now investing in a $162 million commercial complex in Singapore. At 81, Sir Run Run is passing the business to sons Vee Meng and Harold and two nephews, all in Singapore. The Shaw family's known interests around Southeast Asia are worth at least $1.1 billion.—**Joyce Quek**

Singapore

LEE FAMILY

The "Rubber Lees" Bounce Back

The value of their 30% stake in the Oversea Chinese Banking Corp. dropped by $200 million in the October crash, but the "rubber Lees" of Singapore, who founded the bank, are still safely in the billionaire class. The bank stock is back to $675 million, and their extensive rubber plantations

Dilip Mehta Contact

Lee Seng Wee

in Malaysia are easily worth another $500 million, according to a reliable family source. The family has a major stake in Dole pineapple, a result of late family patriarch Lee Kong Chian's business and academic ties to the U.S. during World War II. As major processors of latex, the Lees are also profiting from AIDS, which has multiplied demand for such latex products as disposable surgical gloves and condoms, says Hugh Peyman of Singapore's Merrill Lynch.

Family head Lee Seng Wee sits on the bank's board while his two brothers run the rubber, pineapple and palm oil plantations in Malaysia. Since 1983 the bank has been shedding its stodgy image under nonfamily manager Yong Pung How. Recently the bank undercut competitors on home mortgage rates (currently 5¼%) and is moving into stockbroking, insurance and property management.

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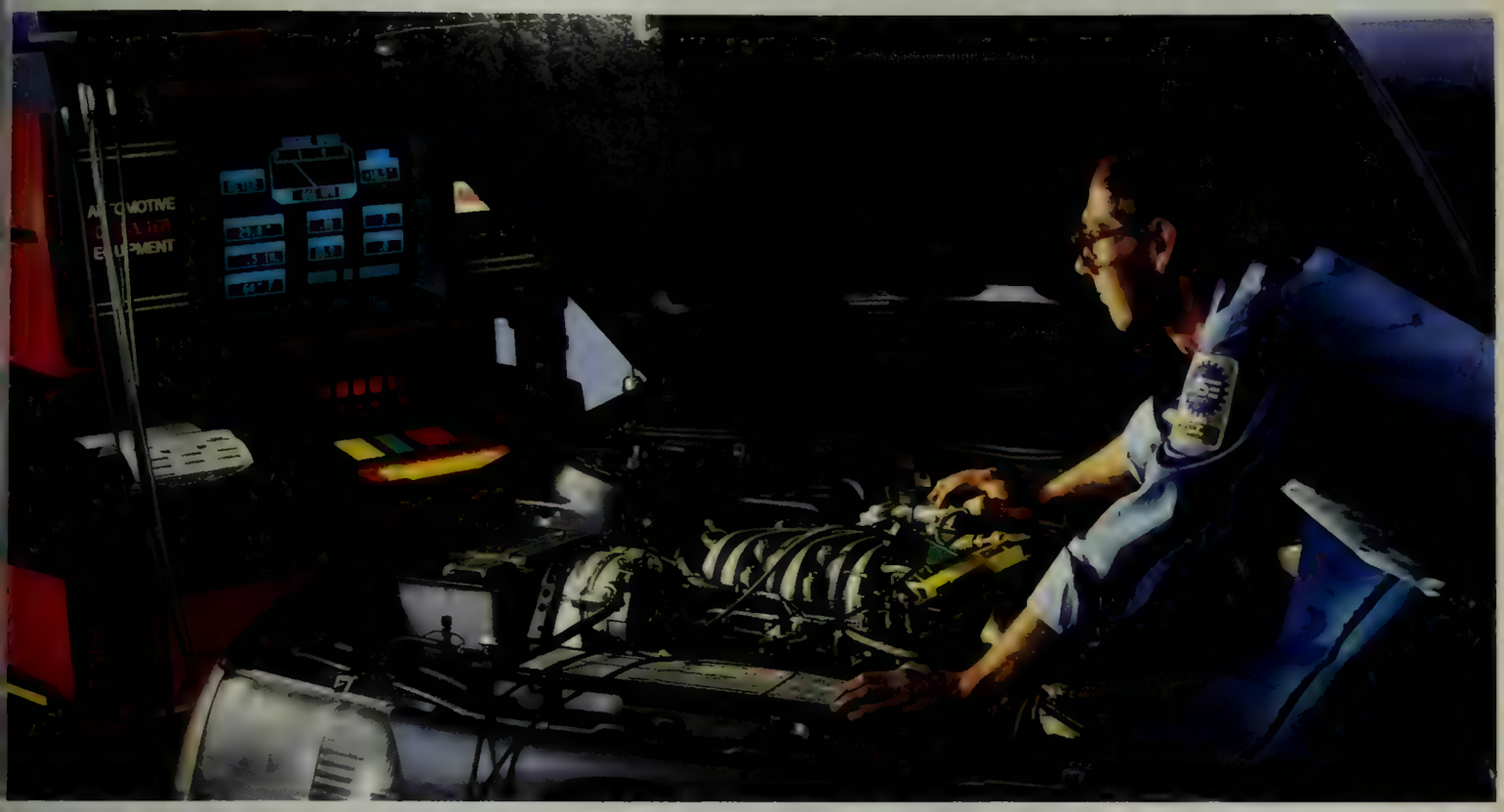

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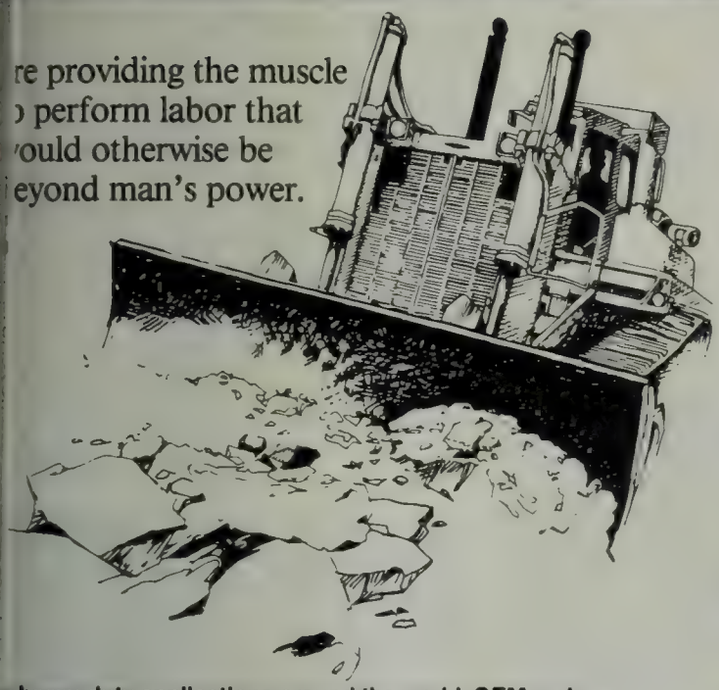

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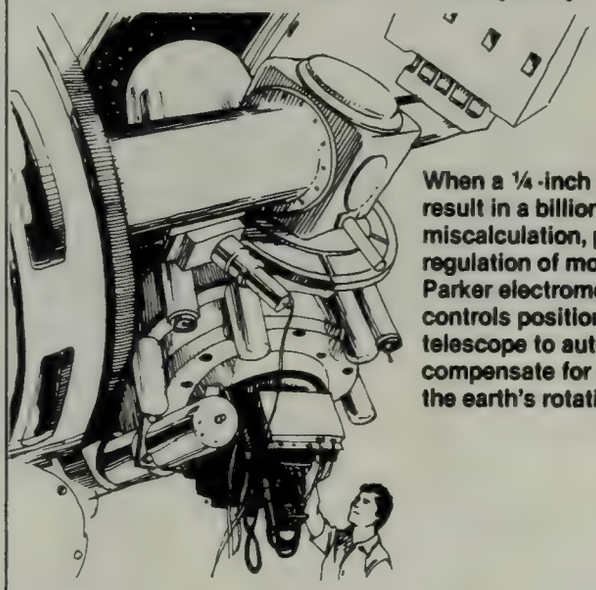

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With 1987 net profits of $64 million, OCBC has not yet regained its one-time leadership of Singapore's Big Four banks, but now even rivals admit it is on the move again.—**Diana Fong**

KWEK FAMILY
Kweks And Queks

Hong Leong means "plenty of prosperity"—an appropriate name for this family's giant property and finance group. When Singapore split from Malaysia in 1965, the Hong Leong group split along two family lines. The Singapore Kweks and Malaysia Queks remain bound together by common interests and heritage.

Straits Times

Kwek Hong Png

Kwek Hong Png, 76, the most dominant of the four founding brothers, runs this wealthy family's Singapore interests with son Kwek Leng Beng. His nephew Quek (the surname was misspelled by a midwife, but the change stuck) Leng Chan heads the Malaysian side.

Patriarch Hong Png emigrated from China's poverty-stricken Fujian Province in 1928, saved up his pennies and went into rubber trading and distribution, but the family always craved land, always buying, never selling. They acquired large parcels for as little as one or two cents per square foot. As Kwek Hong Png says in his recent autobiography "Where there is land, there is wealth, and wealth opens many avenues."

Eight firms of the enterprises in three countries are public companies. The family is apparently less gifted in politics than in business: Singapore's Monetary Authority steadfastly refuses to issue the Kweks a banking license, but they have set up financial institutions in such places as Hong Kong and London.

But property remains the old man's first love. At 76 he is working on his biggest deal ever—using his City Development to build Singapore's new Republic Plaza, which will be the tallest office building in the world outside the U.S.—**Joyce Quek**

Indonesia

LIEM SIOE LIONG
Nothing Lasts Forever

Indonesia's Liem, 72, reputed by some to be the wealthiest Chinese in all Asia, is worth about $2 billion. Inside Indonesia, he owns monopolies in cement, flour and cloves—a boon from his business partner, President Suharto. But Liem has been moving capital abroad, perhaps preparing for the day when his partner no longer

Liem Sioe Liong

rules the country.

His Bank of Central Asia, which caters to overseas Chinese clients worldwide, opened its second branch in New York last year. His First Pacific Co.—incorporated in Bermuda and listed in Hong Kong—distributes consumer products, pharmaceuticals and telecommunications equipment in Southeast Asia.

Australia

KERRY PACKER
Deals Wanted, Apply Down Under

The richest man in Australia—and one of the shrewdest—came through the crash relatively unscathed. Packer, 50, who inherited control of Australia's leading magazine publisher, Consolidated Press Holdings, from his father Sir Frank, scored a timing coup in January 1987 selling Consolidated's television network to fellow Australian Alan Bond for $750 million. If he tried to sell the stations today, he would almost certainly take less.

Now he's looking to reinvest some of the loot. This year he paid about $100 million for 4% of London-based Courtaulds Plc., the £2.1 billion (sales) manufacturer of chemicals, industrial products and textiles. Hardly makes a dent in his wallet.

But he won't overpay. He let himself be outbid for Colly Farms, one of Australia's biggest cotton concerns, and turned down several other big deals. It's bargains he wants.

Recently, for example, he dropped a joint bid along with New Zealand magnate Sir Ron Brierley to buy a piece of Robert Holmes à Court's faltering empire. In the U.S. Packer has a partnership with Australian-born, New York-based investment banker

AP/World Press

Kerry Packer

James Wolfensohn—to invest in U.S. properties.

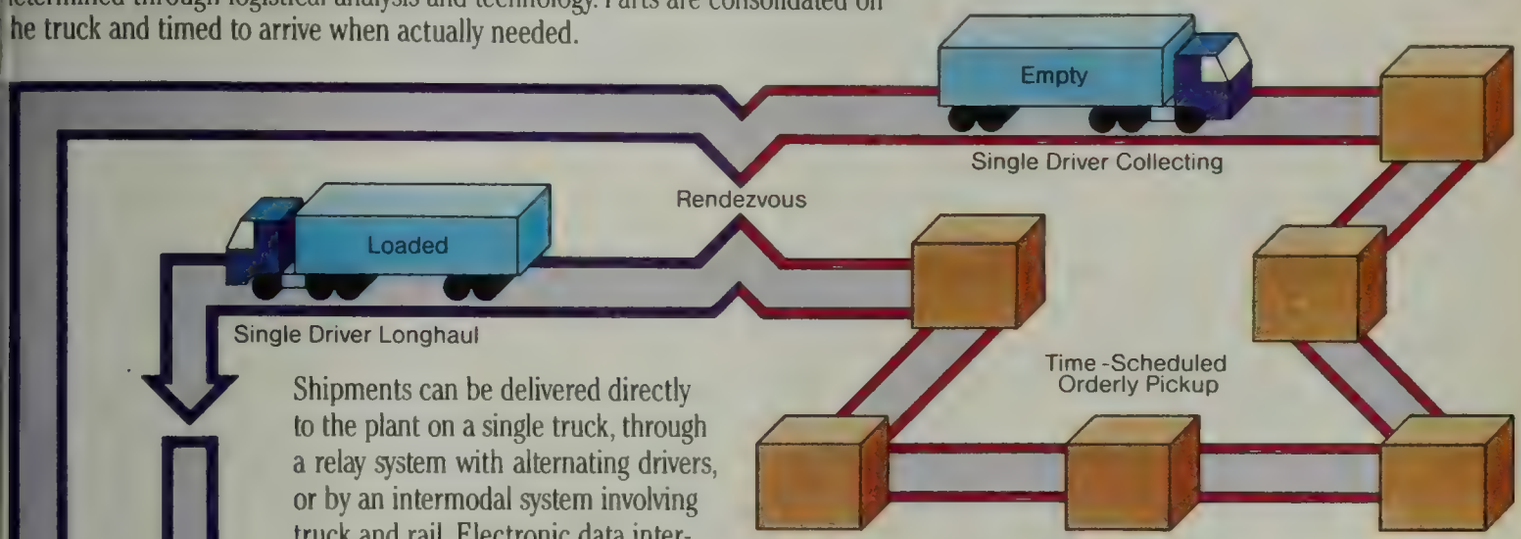
He bides his time, but when he gets into something, it's not halfway. Since September he's bought 150 ponies and built five polo fields at his huge estate 150 miles north of Sydney—to which he travels in a new Sikorsky twin-engined helicopter. Observes a longtime friend, "Not too long ago, Kerry said to me, 'Why not enjoy myself? There's no dress rehearsal; this is it.' "—**Thomas Jaffe**

How Leaseway helps major auto manufacturers reduce costs through integrated logistics.

With the continual need to reduce costs and improve productivity, auto manufacturers are looking for innovative approaches to integrated logistics concepts.

Case in point. The inbound transportation and distribution of parts from auto suppliers to assembly plants has become very costly and increasingly difficult for auto manufacturers to manage.

The solution. Working with plant personnel and suppliers, Leaseway designs integrated systems utilizing dedicated orderly pickup on a just-in-time basis. Production requirements are defined, and optimum routing and scheduling for the transportation of materials are determined through logistical analysis and technology. Parts are consolidated on the truck and timed to arrive when actually needed.

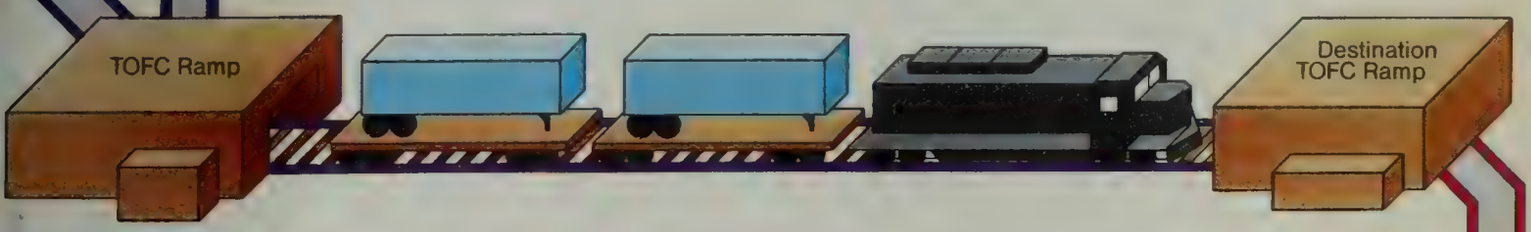


Shipments can be delivered directly to the plant on a single truck, through a relay system with alternating drivers, or by an intermodal system involving truck and rail. Electronic data interchange capabilities make it possible for information to parallel the movement of materials.

The result. By integrating all elements in the supply chain, auto manufacturers can realize significant cost savings and productivity improvements.

Inventory costs are reduced. So are costs for premium freight, in-plant storage space and material handling. Productivity is improved through balanced trailer arrival schedules and timely receipt of data for each inbound shipment.

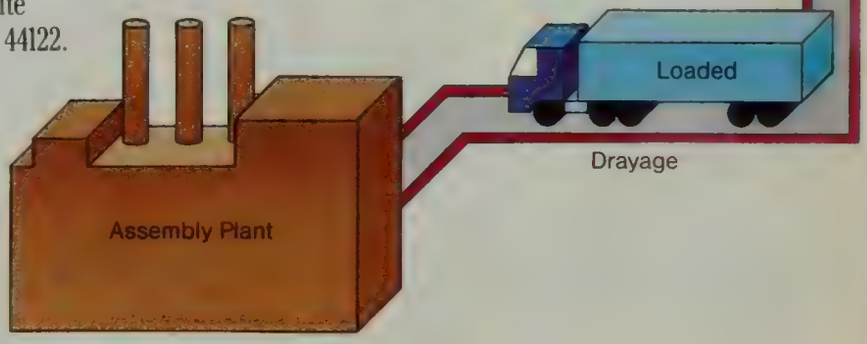
The conclusion. In addition to providing a full range of transportation and distribution services for auto manufacturers such as General Motors, Ford, Chrysler, Mazda, Toyota, and Mercedes-Benz, Leaseway also works with hundreds of companies in a variety of industries. If you're looking for ways to reduce costs and improve productivity in your business, we can help with our innovative and integrated logistics concepts.



Helping your business. Leaseway will analyze your entire distribution system, or any part of it. And recommend a cost-effective solution that's custom-tailored to your unique needs.

To see how a working relationship with Leaseway can help make your business more cost-effective, call Charles B. Lounsbury, Senior VP, at 1-800-428-0042. In Ohio, 1-800-428-0028. Or write Leaseway Transportation, 3700 Park East Drive, Cleveland, OH 44122.

Call 1-800-428-0042.



Leaseway Transportation.

Leaseway Transportation is a group of companies providing high-quality, cost-effective, physical distribution services to manufacturers, distributors, and retailers

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There are probably more reputed billionaires in the world than there are real ones. Saying that someone is a billionaire is one thing. But proving it is quite another.

A few who failed to make the cut

LAST YEAR we valued the **Alireza family** at more than $1 billion. But, on closer examination, the three branches of the "Arab Rothschilds" are quite separate. No single branch seems to have $1 billion in visible assets; one branch may be having financial problems.

Carlo De Benedetti, wiser from his experience with Société Générale, currently controls visible net assets that still fall short of $1 billion.

Serge Dassault's principal holding, just under 50% of Avions Marcel Dassault-Breguet Aviation, was hit hard by the October crash, and is lately worth under $1 billion.

Michel David-Weill, head of Lazard Frères, has a fortune of at least $700 million. It could be as high as a billion, but that is uncertain.

Fok Ying-tung, a.k.a. **Henry Fok** (rhymes with buck), is the junior partner with Stanley Ho in the Macao casino cartel. Ho is not clearly a billionaire, either.

In the face of Argentina's economic difficulties, **Amalia de Fortabat,** Argentina's cement queen, socialite and art collector, falls short of being a billionaire, with a fortune estimated around $750 million.

Sir James Goldsmith, the Anglo-French financier, certainly has over $1 billion in assets, but the level of debt within his private empire is unclear and possibly large.

Stanley Ho, chief of the Macao casino cartel, owns, with his family, the controlling interest; case not closed.

Robert Holmes à Court, possibly the world's briefest billionaire, saw his highly leveraged fortune cross the $1 billion mark (net) early last September. By the time the dust settled from the October crash, Holmes à Court was worth a fraction of that.

Simon Keswick and family are more influential than wealthy. He owns an equity stake estimated at less than 10% in Jardine Matheson, making him less than a billionaire.

Hong Kong's **Lee Shau-kee** had a billion last year, but his primary property company, Henderson Land, took a big hit in the October crash, reducing the market value of his shares to under $1 billion.

Stavros Niarchos, the Greek shipowner, has liquidated much of his fleet; his assets are doubtless large, but not largely visible. And secretive **Costas Lemos,** said by some to be the richest Greek shipowner of all, proved too clever at hiding his assets for us to include him. This year.

Ronald Li Fook-shiu, former chairman of the Hong Kong stock exchange, who is widely believed to have profited from bribes and insider knowledge during his tenure, is thought by some to be worth $2 billion. Pending the criminal investigation adjourned until August, far less than $1 billion is visible.

Harry Oppenheimer, the South African mining magnate, remains below the $1 billion level, largely because of the depressed South African rand.

The wealth of Egyptian construction magnate **Osman Ahmed Osman** has been estimated at as high as $1.5 billion. But these estimates seem to ignore the fact that the largest enterprise under his wing, giant Arab Contractors Co., was nationalized during the Nasser years and is legally owned by the Egyptian government. Its considerable worth, therefore, cannot be assigned to him.

The **Pesenti family** of Italy, with huge stakes in cement, forest products and steel through holding company Italmobiliare, is believed to be worth following for next year's billionaire edition.

Saudi Arabian entrepreneur **Ghaith Pharaon,** whose wealth last year was estimated at just under $1 billion, has renegotiated $340 million of debt on Redec, his largest Saudi operating company, but he had to give lenders a portion of the company.

Britain's **Gerald Ronson,** founder of construction conglomerate Heron International, who was arrested in the Guinness scandal, is estimated at $800 million. But he's still young.

Thomas Schmidheiny, brother of Stephan Schmidheiny *(see p. 100)*, was included as a billionaire last year, but since Swiss stocks are lower since last summer, his portion of the family fortune is now only about $850 million.

India's **Tata family,** who virtually founded Indian industry (India is now the tenth-largest industrial power in the world), long ago placed the bulk of their assets in charitable trusts. Their direct holdings in the immense Tata empire seem to be worth under $1 billion.

Germany's **Thyssen family,** long resident in Argentina, owns about 20% of steel giant Thyssen A.G., a holding once worth $1 billion, but lately valued at under that.

Holland's **Van Beuningen family** is enormously rich, but our documentation is not yet complete enough to include them on the list.

Princeton graduate **Gordon Wu** is reportedly investing $1 billion to construct a superhighway linking Hong Kong and Macao to China, the "New Jersey Turnpike of Asia." But not all of the $1 billion represents his family's equity stake in the highway. ■

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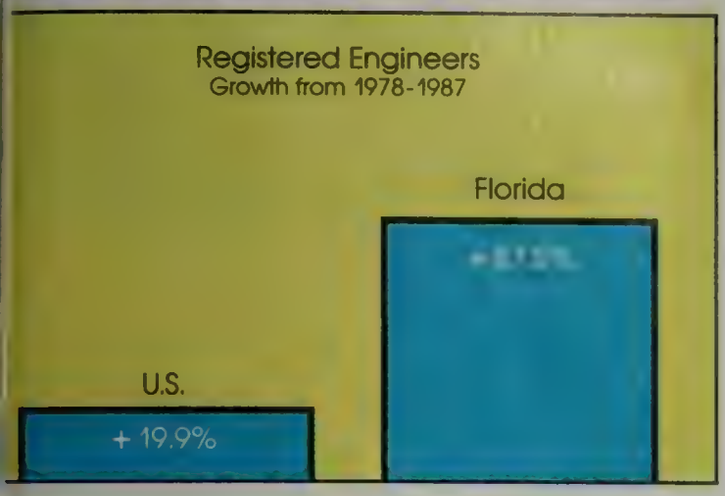
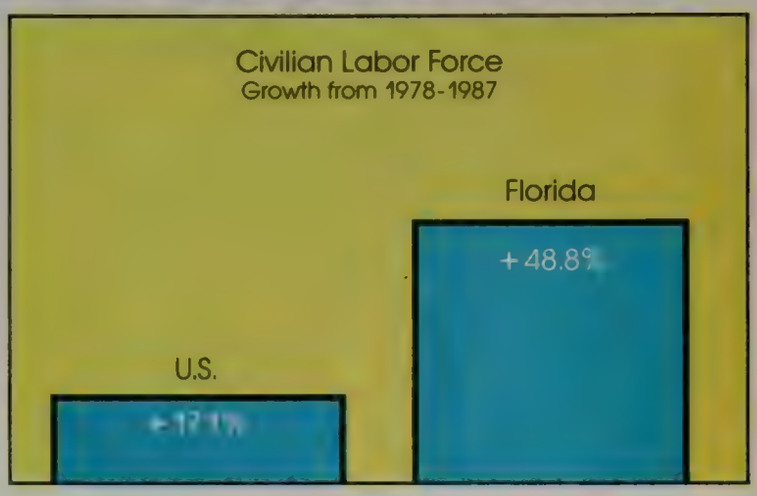
RANKING THE FOREIGN BILLIONAIRES

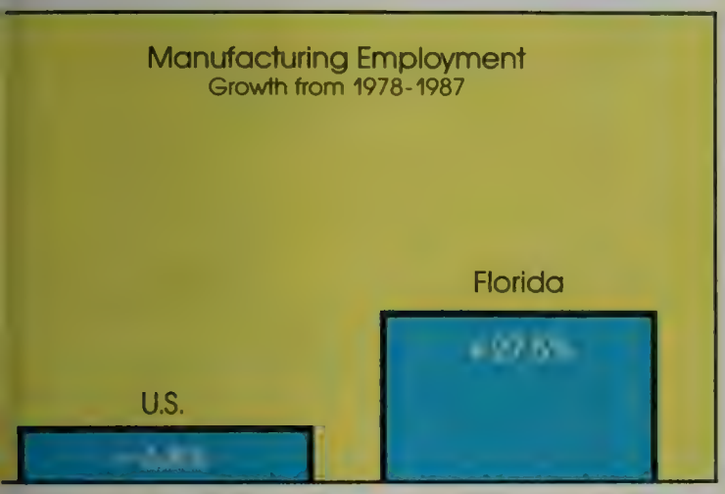
Name/country/*source of wealth*	Page
OVER $10 BILLION	
Mori, Taikichiro/Japan/*property development*	132
Tsutsumi, Yoshiaki/Japan/*transportation, hotels, leisure industry*	132
OVER $5 BILLION	
Irving, Kenneth Cole/Canada/*oil distribution, paper, land*	130
Reichmann, Paul, Albert and Ralph/Canada/*real estate*	130
Thomson, Kenneth Roy/Canada/*publishing, retailing*	131
Itoyama, Eitaro/Japan/*leisure industry*	135
Watanabe, Kitaro/Japan/*real estate, hotels*	136
Yoshimoto, Haruhiko/Japan/*real estate*	136
Shin Kyuk-ho (a.k.a. Shigemitsu, Takeo)/Korea/*candy making, hotels, real estate*	147
Areces, Ramon/Spain/*retailing*	94
Tsai Wan-lin/Taiwan/*insurance, construction*	150
OVER $2 BILLION	
Weston, Garry and Galen/Canada/*supermarkets*	131
Escobar Gaviria, Pablo/Colombia/*cocaine*	126
Ochoa family/Colombia/*cocaine*	126
Schlumberger family/France/*oil services*	116
Brenninkmeyer family/Germany/*retailing*	109
Finck, Wilhelm and August von/Germany/*banking, real estate*	110
Flick, Friedrich Karl/Germany/*finance*	110
Haub, Erivan/Germany/*supermarkets*	110
Henkel family/Germany/*consumer products*	109
Mohn, Reinhard/Germany/*publishing*	108
Oetker, Rudolf August and family/Germany/*food, brewing*	109
Von Oppenheim family/Germany/*banking*	111
Quandt family/Germany/*autos, industry*	108
Werhahn family/Germany/*retailing, banking*	111
Liem Sioe Liong/Indonesia/*finance, trade, manufacturing*	160
Agnelli, Giovanni and family/Italy/*autos, investments*	96
Ferruzzi family/Italy/*agricultural conglomerate*	94
Ito, Masatoshi/Japan/*retailing*	142
Iwasaki, Yohachiro/Japan/*logging, property, leisure industry*	135
Kobayashi, Shigeru/Japan/*real estate*	135
Matsuoka, Seijiro/Japan/*real estate*	140
Matsushita, Konosuke/Japan/*electronics*	144
Nakajima, Kenkichi/Japan/*pachinko*	144
Otani, Yoneichi/Japan/*hotels*	133
Sagawa, Kiyoshi/Japan/*delivery service*	147
Saji, Keizo/Japan/*liquor*	143
Sasaki, Kichinosuke/Japan/*real estate*	132
Shino, Rinji/Japan/*real estate, leisure industry*	137
Takei, Hirotomo/Japan/*publishing, real estate*	140
Takenaka family/Japan/*construction*	144
Yoshida, Tadao/Japan/*zipper manufacturing, building materials*	140
Garza Sada family/Mexico/*beer, steel, packaging*	130
Al-Rajhi family/Saudi Arabia/*money changing*	122
Kamprad, Ingvar/Sweden/*furniture retailing*	118
Rausing, Hans and Gad/Sweden/*liquids packaging*	118
Schmidheiny, Stephan/Switzerland/*industry*	100
Wang, Y.C./Taiwan/*plastics*	150
Grosvenor, Gerald Cavendish/U.K./*property*	102
Sainsbury, David/U.K./*supermarkets*	103
Vestey, Samuel and Edmund/U.K./*meatpacking*	103
OVER $1 BILLION	
Aga Khan IV/*religion, investments*	119
Packer, Kerry/Australia/*media*	160
Swarovski family/Austria/*rhinestones*	111
Kanoo family/Bahrain/*shipping, airline*	125
Camargo, Sebastião/Brazil/*construction, manufacturing*	127
Ermirio de Moraes, Antônio and family/Brazil/*mining, industry*	127
Marinho, Roberto Sr./Brazil/*media*	127
Bronfman, Charles/Canada/*liquor*	131
Rodriguez Gacha, Gonzalo/Colombia/*cocaine*	126
Bettencourt, Liliane/France/*cosmetics*	118
Bouriez family/France/*supermarkets, furs*	114
Peugeot family/France/*autos*	116
Albrecht family/Germany/*supermarkets*	104
Beisheim, Otto/Germany/*electronics retailing*	104
Herz family/Germany/*coffee retailing*	109
Schickedanz family/Germany/*mail order*	110
Thurn und Taxis, Johannes von/Germany/*land, investments*	108
Cheng Yu-tung/Hong Kong/*jewelry, property development*	154
Kadoorie family/Hong Kong/*utilities, hotels*	156
Kwok Tak-seng/Hong Kong/*property development*	154
Li Ka-shing/Hong Kong/*property development, industry*	154
Pao, Sir Yue-kong/Hong Kong/*shipping, property development*	150
Shaw, Sir Run Run and family/Hong Kong/*movie production, cinemas*	156
Birla family/India/*textiles, aluminum, autos*	125
Benetton family/Italy/*clothing*	96
Berlusconi, Silvio/Italy/*construction, broadcasting*	94
Ferrero, Michele/Italy/*candy making*	100
Ligresti, Salvatore/Italy/*insurance, construction*	96
Fujisawa, Akikazu/Japan/*electronics retailing*	142
Hayashibara, Ken/Japan/*pharmaceuticals, biotechnology*	140
Ishibashi, Kanichiro/Japan/*auto tires*	143
Ishii, Hisashi/Japan/*finance*	146
Jinnai, Ryoichi/Japan/*consumer finance*	146
Kawamoto, Genshiro/Japan/*real estate*	133
Kobayashi, Heizo/Japan/*restaurants, supermarkets, hotels*	137
Kumagai family/Japan/*construction*	143
Moroto, Kiyofumi/Japan/*forestry, real estate*	133
Nangaku, Masao/Japan/*property development, electronics retailing*	135
Otsuka, Masahito/Japan/*pharmaceuticals*	146
Takei, Yasuo/Japan/*consumer finance*	144
Tsutsumi, Seiji/Japan/*retailing*	142
Uehara, Shoji/Japan/*pharmaceuticals*	147
Yokoi, Hideki/Japan/*real estate*	137
Chung Ju-yung family/Korea/*heavy industry*	148
Lee Byung-chull family/Korea/*trading, retailing, consumer electronics*	148
Al-Ghanim family/Kuwait/*autos, investments*	124
Al-Kharafi, Mohamed Abdul Mohsin/Kuwait/*banking, construction*	124
Al-Marzook family/Kuwait/*real estate, investments*	124
Hariri, Rafik Bahauddin/Lebanon/*construction, investments*	124
Safra family/Lebanon/*banking*	122
Dreesmann, Anton/Netherlands/*retailing*	114
Fentener van Vlissingen family/Netherlands/*oil & gas, consumer goods*	114
Chon brothers/N. Korea/*supermarkets, pachinko, trading*	147
Al-Sulaiman, Abdul-Aziz A./Saudi Arabia/*cement, hotels, autos*	119
Bin Mahfouz family/Saudi Arabia/*banking*	122
Juffali family/Saudi Arabia/*construction, truck distribution*	122
Olayan, Suliman Saleh/Saudi Arabia/*construction, investments*	122
Kwek family/Singapore/*finance, property*	160
Lee family/Singapore/*rubber trading, banking*	156
Botin family/Spain/*banking*	92
March family/Spain/*banking, real estate*	92
Sacher, Paul and Sacher-Stehlin, Maja/Switzerland/*pharmaceuticals*	102
Thyssen-Bornemisza, Hans Heinrich/Switzerland/*finance*	102
Chang Yung-fa/Taiwan/*shipping*	150
Hsu family/Taiwan/*textiles, cement, department stores*	148
Maxwell, Robert/U.K./*publishing*	102
Moores, Sir John/U.K./*retailing*	103
Swire brothers/U.K./*Far East trading, airline*	104

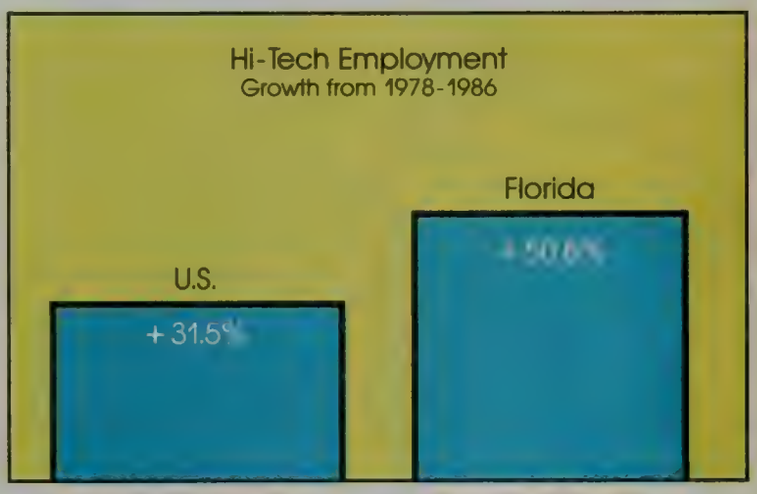
COMING SOON: The Forbes Four Hundred—the 400 richest people in the U.S. Dated Oct. 24, our seventh annual compilation of U.S. wealth will include biographies of the four dozen or so individual Americans who qualify as billionaires.

A DECISION YOU CAN GROW WITH.









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If you own a home, chances are that the 76-year-old chief of Atlanta-based Rollins, Inc. has got your number. Or will soon.

Bugs, burglars and sod

By Kerry Hannon

ON HIS WAY to accumulating a net worth of more than $800 million (FORBES, *Oct. 26, 1987*), O. Wayne Rollins, trader that he is, has bought and sold, managed and dismantled many companies. You name it: TV stations, oil service companies, carpetmakers and citrus groves. Now, at 76, he has focused his ever changing conglomerate, Rollins, Inc. (1987 sales, $337 million), on the task of alleviating the insecurities of American homeowners.

Rollins is the nation's biggest insect exterminator, its largest home burglar alarm company and one of its largest lawn care companies. If this is not a marketer's dream, we don't know what is. Rollins sales and service people are carefully instructed never to leave a home without mentioning the company's other services.

So, if you have rats or roaches, ants or termites, Orkin Exterminating takes care of it. By the way, Orkin Lawn Care could sure perk up the brown, balding grass in your front yard. And have you heard about the burglary down the street? Time to think about a home alarm system from Rollins Protective Services.

Moreover, Rollins is expanding in all three fields. He is using cash flow—$33 million annually, $1.40 a share—to pay for acquisitions. Last year he bought two pest control companies, including Abalene, the largest in New York and New England. Other recent buys include five lawn care companies and two security firms.

The conglomerate's crown jewel is unquestionably 87-year-old Orkin Exterminating (acquired by Rollins in 1964), last year accounting for 87% of corporate revenues and 93% of total operating profits of $45.5 million.

A lot of bugs, yes, but not all are in homes. Orkin also keeps the rats, roaches and termites at bay for Marriott hotels and McDonald's restaurants, in addition to around 1 million homes a year. In the last four years alone, sales grew by 30%, spread among 327 company-owned branches in 47 states.

At the same time, Rollins and his son Gary, the conglomerate's 44-year-old president and chief executive, have increased earnings at Rollins Protective Services 30% and boosted the lawn care business 20% as well.

At about $4 billion a year—if you count electronic zappers and do-it-yourself sprayers—bugs are big business in America. Orkin, the giant, with a 10% share of the $2.6 billion professional pest control market, has number two Terminex, owned by Illinois-based Servicemaster, right on its heels with 6%. The trend, as in many industries, is toward consolidation. Yet to the discomfort and disgust of homeowners everywhere, there is plenty of room for the industry to grow. Termites alone chewed up $750 million worth of trees and homes last year.

Three growth businesses: bug killing, burglary detection and lawn care. Rollins' revenues for fiscal 1988 (ending June 30) will be up 32% since 1984. Profits in that period are up 40%. Rollins' five-year average return on equity is 29%—double that of the typical U.S. industrial services company. These sparkling results were achieved without benefit of leverage: Rollins has no debt at all.

Glamorous businesses? No. But profitable—the way Wayne Rollins likes things. ■

Patrick McDonnell

SPECIAL ADVERTISING SECTION

HONG KONG REVIEW

A PLACE MADE FOR BUSINESS

The headquarters building of the Hongkong Bank Group in the heart of Central district is in many ways typical of the stunning new architecture that is being built throughout Hong Kong and is a physical manifestation of the Bank's total commitment to Hong Kong long after 30th June 1997.

If a novelist had dreamed up Hong Kong, no reader would believe the story line – as a place to do business Hong Kong is almost too good to be true. But not only is Hong Kong for real, it aims to stay that way.

THE CLOCK IS RUNNING ON Hong Kong. In slightly less than nine years – at midnight on June 30th, 1997, to be precise – the Union Jack will be hauled down for the last time, ending 155 years of British colonial rule, and the flags of the People's Republic of China and its new Hong Kong Special Administrative Region will be run up in its stead. The question is, will 1997 be the beginning of the end for capitalism's one true haven in Asia.

The territory was founded in the early 1840s as a place to do business with China. It offered a safe harbor, an impartial legal system and, at least initially, little else. In fact, for much of its first hundred years, Hong Kong was in the shadow of the dynamic international settlement at Shanghai.

That began to change with the Second World War and later the Communist victory over the Nationalists which led to the establishment of the People's Republic of China in 1949. More than a million people poured into Hong Kong in these years.

As China turned increasingly inward, Hong Kong's role as an entrepot was not enough to sustain its population. But amongst the refugees were many of pre-war China's industrialists, so the territory shifted gears and moved rapidly into industry – first with simple items like plastic flowers and knitwear, later with a broad range of garments, textiles, toys, watches, consumer electronics, computers and peripherals. Hong Kong's old entrepot role did pay off, helping the territory emerge as a regional service center initially in shipping, then in finance, telecommunications and tourism.

ADVERTISEMENT 2

COUNTING ON THE BANK

A GOOD INDICATION OF China's commitment to Hong Kong's future was the extraordinarily warm welcome Beijing gave recently to William Purves, chairman of the Hongkong and Shanghai Banking Corporation. China's new premier, Li Peng, stressed the importance China placed on Hong Kong and on Purves' Hongkong Bank in the development of China. The Chinese leader made it clear that when Hong Kong reverts to Chinese sovereignty, he expected the Hongkong Bank to continue to play a major role locally, including issuing banknotes as it does now.

This is a significant commitment. Known in Hong Kong and through much of Asia simply as *The Bank*, Purves' Hongkong Bank operates in Hong Kong a little like the Federal Reserve would if it decided to make a profit for a change. It has 400 offices, controls a hefty share of the local market and issues 83% of the banknotes. If the Chinese wanted to alter Hong Kong's economic system, they would probably have to begin with *The Bank*.

Founded in 1865 by merchants trading on the China coast, from the outset the goal of the Hongkong and Shanghai Bank was to be an international bank servicing trade between Asia and Europe and North America. It has more than lived up to those expectations. Indeed, today, on a world-wide basis, with $107 billion in assets, the Hongkong and Shanghai Bank Group is larger than all American banks except Citibank.

View of Central district from Kowloon.

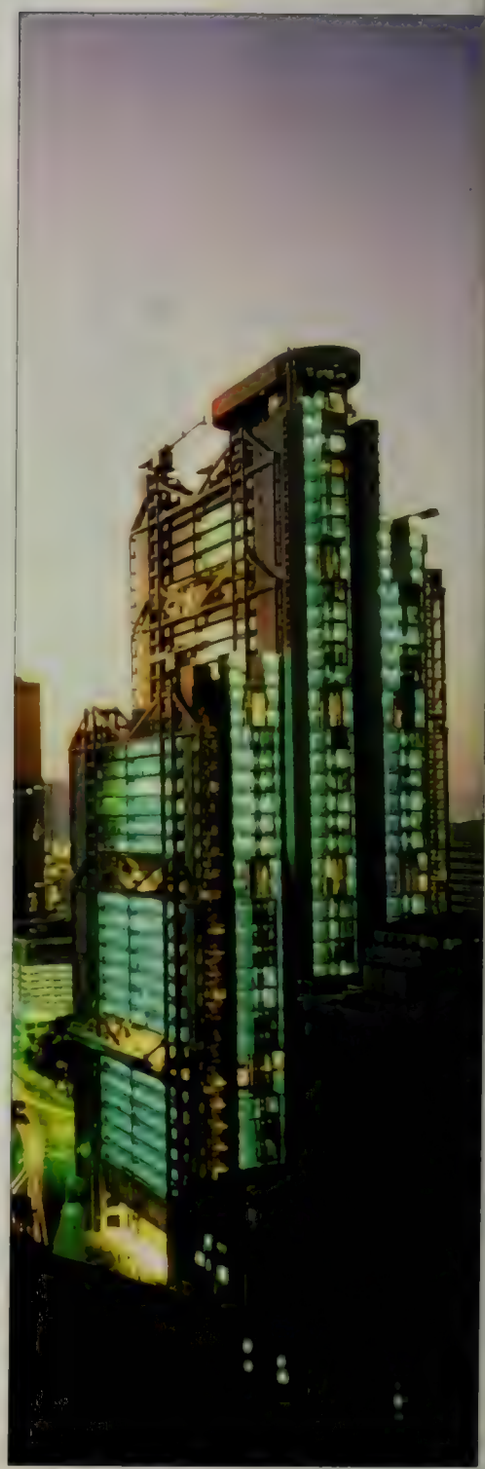
Hongkong Bank was the first foreign bank to open in the United States (San Francisco, 1975) and is the oldest surviving bank of any in Japan (Yokohama, 1866). Once it issued currency in Japan, as it still does in Hong Kong, but now its four offices there concentrate on trade finance. The group's well-respected brokerage house, James Capel, also provides an investment outlet.

Also the first foreign bank in Thailand, the Philippines and long a force in China, the group retains sprawling interests throughout Southeast Asia, the Pacific, South Asia and the Middle East. Its familiar red and white hexagonal logo can be seen in ports between Seattle and Singapore, Brisbane and Bombay, as well as in Chinatowns around the world.

The largest single concentration of assets, however, is not in Hong Kong, but in North America, where Marine Midland and the Hongkong Bank of Canada are both wholly-owned subsidiaries. Taken with the group's recent acquisition of a stake in Britain's Midland Bank, the Hongkong Bank takes on truly global proportions.

As Purves puts it, a Korean exporter in Seoul can walk into the Hongkong Bank there and expect to get the same quality of service as he would in a group branch or office in Albany or Osaka, Kowloon or Melbourne, Qatar or Nicosia, or, for that matter, in any of the more than 50 countries *The Bank* serves.

William Purves, Chairman of the Bank



The Hongkong and Shanghai Bank Group headquarters at night

There's a saying in China...

GOVERNMENT STAYS OUT OF THE WAY

SIGNIFICANTLY, THE HONG Kong government responded to the rapid evolution of the territory's economy, by staying out of the way. Instead of trying to play mastermind, the government concentrated on creating a framework for growth. It maintained law and order; it built the infrastructure – or arranged for the private sector to build what was needed; and it kept the cost low.

This is still true today. "The administration provides the infrastructure – ports, roads, airport, efficient administration – and leaves decisions about business to those best qualified to make them. That's the businessmen," explains the territory's Chief Secretary, Sir David Ford.

The importance of government's hands-off attitude cannot be underestimated. It has allowed local businessmen to develop exceptional flexibility. Hong Kong business is best at following market trends. What does the market want to buy? Hong Kong will find out tonight and make it tomorrow.

Laissez faire capitalism, in fact, has made Hong Kong one of the world's most successful economies. Usually ranked as one of the *little tigers* – South Korea, Taiwan and Singapore – Hong Kong is the world's 13th largest trading economy. Because the government never tried to coddle industries with protective tariffs and quotas – Hong Kong is effectively wide open to imports – only those industries survive in Hong Kong that can compete internationally.

Moreover, Hong Kong's impressive post-war growth has created a low-tax economy which can fund an extensive public housing program, social welfare, education and public health – and afford higher wages, steadily rising living standards, expanding consumer demand and a lively popular culture. This flow-on of prosperity leads to a stable environment. "Though often overlooked, this is one reason Hong Kong is not plagued with racial, communal and other disharmony," suggests Jack So, executive director of the Hong Kong Trade Development Council.

Jack So – the Executive Director of the aggressively successful Hong Kong Trade Development Council.

1997 AND ALL THAT

IT IS THIS ENVIRONMENT, SO uniquely suited to business, that 1997 seems to put into doubt. Thousands of Hong Kong citizens, especially middle class citizens, have already decided not to take the risk, opting to emigrate to Canada, Australia, the United States and wherever else they can get in. While upwards of 20% probably will eventually return, each with a shiny new passport, the outflow is enough to cause even the Hong Kong government's British, stiff upper lip to quiver.

Dubbed the *brain drain*, in business terms the exodus has been called Hong Kong's most serious problem. Yet ironically, Hong Kong's free market system will probably come to the rescue. Emigration creates opportunities for a new generation of entrepreneurs. Companies will streamline operations, in short becoming leaner and more competitive. "Ultimately", suggests Vincent Cheng, chief economist at the Hongkong and Shanghai Bank, "the only way to stop people leaving is to continue to maintain Hong Kong's position as the last bastion of *laissez faire* economics and free trade in action."

The underlying question behind the current emigration, of course, is 1997. The 1984 Sino-British Joint Declaration, under which it was agreed China would resume sovereignty, guarantees Hong Kong can keep its capitalist ways for 50 years after 1997 under an approach the Chinese label *one country, two systems*.

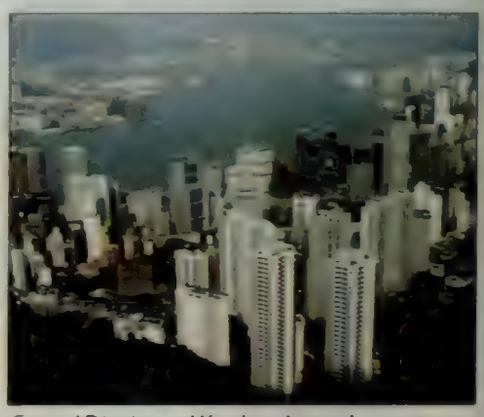
While the 1984 pact and the subsequent moves to establish a framework for the largely autonomous, post-colonial Hong Kong Special Administrative Region probably err in trying to make explicit matters of spirit, there can be little doubt China wants Hong Kong to carry on being just as successful as before.

Lydia Dunn agrees. Widely regarded as the most powerful woman in Hong Kong, U.S.-educated (University of California, Berkeley), Dunn wears many hats – in government she is the senior member of the law-making Legislative Council and a respected adviser on the cabinet-level Executive Council; in business she is a senior executive and director of the old British trading house of Swire, as well as being a board member of the Hongkong and Shanghai Banking Corporation; and as chairman of the Trade Development Countil she spearheads Hong Kong's successful export *and* import drive.

Lydia Dunn – by common agreement the most influential women in both politics and business in Hong Kong.

She reasons that the unique *one country, two systems* means that there has never been a better time to put money into Hong Kong: what other country in the world has such a half-century guarantee? "China has made it clear," she adds, "it welcomes and supports foreign investment in Hong Kong."

"The leadership in Beijing really want Hong Kong to maintain its economic position after 1997," emphasizes Larry Yung, vice chairman and managing director of China International Trust and Investment Corporation Hong Kong (CITIC). In fact, Yung and his well-connected Beijing-based parent company are banking on Hong Kong's continued prosperity. CITIC has taken a significant stake in Cathay Pacific, Hong Kong's leading international airline; joined the consortium building Hong Kong's second harbor tunnel; plunged into the property market; acquired and chartered out ten ships; and launched manufacturing joint ventures.



Central District and Kowloon beyond as seen from the Victoria Peak.

No business deal will get very far without someone to put it together.

Around the world, buyers are trying to meet up with sellers, and vice versa. Joint venture possibilities are everywhere. All that's needed is an introduction. And the bigger the potential deal, the more important the intermediary — especially when cross-border transactions are involved.

In any market, in any language, it's just a question of that missing link. And as far as China is concerned, the word you're looking for is CITIC.

China International Trust and Investment Corporation (Holdings) — was formed in 1979, immediately after the Chinese Government announced its decision to embark on a programme of economic development and 'internationalisation'.

Its task was to generate greater commercial contact with the West.

Now, through China International Trust and Investment Corporation Hong Kong (Holdings) Ltd (CITIC HK), China has a very powerful presence in Hong Kong — a vital player in the overall game.

CITIC HK represents a radical departure from the old ways of doing business.

We're a company, not a quango, with a commercial organization's approach to doing business. And we're already heavily, and profitably, involved in aviation, energy, public utilities, real estate, shipping, manufacturing and trading.

In fact, we're firmly established as one of the leading concerns in Hong Kong.

We're constantly on the look out for further opportunities to attract foreign investment and joint venture operations in China; to import into China the most advanced technology and management expertise; to export commodities from China; and (it goes without saying) to encourage all forms of foreign co-operation.

Also, we've broken with tradition in other ways.

For example, we have senior executives trained in the West and with professional experience there, giving them the ability to operate 'on both sides of the fence'.

In short, we've mastered the ins and outs of global business. We're expected to compete. And we certainly do so.

If any of this interests you, have a word with us.

Because when you talk to us, you're talking to the people whose job it is to listen and, more importantly, to put things together.

For further information, contact:
Henry H.L. Fan
Executive Director
China International Trust & Investment Corporation Hong Kong (Holdings) Ltd.
25th Floor, Admiralty Centre
Tower I, 18 Harcourt Road, Hong Kong
Telefax: 5-8613834
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THE CHINA CONNECTION

HONG KONG BEGAN AS AN outpost on the route to China. Since China's re-opening after the *Black Decade* of the Cultural Revolution (1966-76), however, the territory has grown to be the principal gateway to China and its 1.1 billion people. As a result, over the last ten years trade between China and Hong Kong multiplied an astonishing 19 times, while re-exports from China through Hong Kong rocketed 23-fold.

Hong Kong is not only the main base for trade with China, it is also a major investor there. More than 80% of the foreign investment there comes from or through Hong Kong. Initially this tended to be weighted toward the service sector. Shangri-La, famous for its hotels in Hong Kong, Singapore, Bangkok, Kuala Lumpur and elsewhere, opened a hotel in Beijing. Groups like New World Hotels also are active.

But over just the last two or three years the Hong Kong-China connection has taken on a new dimension. As Robert Theleen, president of ChinaVest – a venture capital fund backed by the likes of Orange Nassau and Rockefeller & Co. – recently told an Asian Development Bank seminar, the next *little tiger* economy to emerge is likely to be south China. The driving force: investment from Hong Kong.

Hong Kong toy factory – production techniques move steadily upmarket in the world's largest producer of toys.

High precision quality control at a Hong Kong watch factory.

With the second highest *per capita* income in Asia and wage levels that make traditional labor-intensive industries uneconomic, Hong Kong manufacturers have begun shifting production across the border. Already two million southern Chinese work for Hong Kong-based companies – a significant figure when compared to Hong Kong's total population of only 5.5 million.

The China connection gives Hong Kong industry access to what it has not really had for more than a decade: a large pool of inexpensive labor. "A worker in Shenzhen, just across the border," notes CITIC's Yung, "could save a Hong Kong

From high tech to high fashion, Hong Kong's manufacturing expertise is recognised around the world.

A productive workforce, a sophisticated business environment and a market-driven attitude all combine to give Hong Kong an unbeatable edge in producing the highest quality at the most competitive prices in the shortest time.

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manufacturer as much as HK$20,000 a year in wages."

Yet the shift of low wage manufacturing jobs out of Hong Kong has not been accompanied by a *hollowing* of the Hong Kong economy, as might be feared. Right now the territory is operating at beyond full effective employment and some estimates put the number of job vacancies as high as 200,000.

In other words, Hong Kong is once again changing to meet new opportunities. As Lydia Dunn observes, it has begun a manufacturing service center for factories in south China, handling product design, marketing and management. At the same time, notes Jack So, factories in Hong Kong are aggressively moving upmarket, turning out more sophisticated, better quality products with much higher value-added.

The other side of the connection is Chinese investment in Hong Kong, along the lines of CITIC. Already this may be as high as $10-12 billion, according to some sources, in a broad range of ventures. More than 500 mainland state trading corporations and provincial governments have offices in Hong Kong.

Oriental elegance is just one area where Hong Kong manages to blend the best of the East with the best of the West.

This makes Hong Kong a capitalist showcase for officials from communist China. "They witness daily how Hong Kong does business," Jack So argues. "Hong Kong is the financier, the anonymous teacher and partner for China's budding entrepreneurial class."

"CITIC believes it offers potential partners enormous advantages in tackling the China market."

– Larry Yung, Vice Chairman & Managing Director of the China International Trust and Investment Corporation Hong Kong.

Adds CITIC's Yung, "In Hong Kong every day is an education for us."

"Setting up a factory in Hong Kong is much easier and faster than in China," according to Yung, "so, we like to start off here, getting the tooling, design, marketing, management and inventory controls right, before expanding production into China."

CITIC also uses its Hong Kong base to organise projects aimed at China. For example, it has a cottonseed oil joint venture with Cargill in China; is negotiating details of a project with Hutchison Whampoa and Hong Kong Telecommunications to launch a communications satellite; and has another joint venture with Hutchison Whampoa, one of Hong Kong's largest *hongs* or trading houses, to build a power station in Jiangsu province, China.

Staffed largely by Hong Kong professionals, but armed with a mandate from China's powerful State Council which allows it to move around the hide-bound Chinese bureaucracy in order to accelerate China's development, CITIC believes it offers potential partners enormous advantages in tackling the China market.

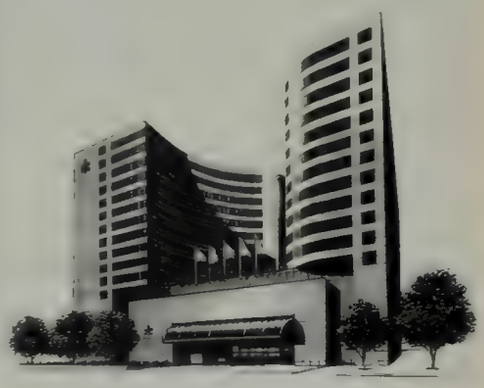
"Too often," Yung says, "when Chinese and foreigners get together the gears don't match – their viewpoints are too different." CITIC helps each side see the other's objectives. Apart from power stations, shipping, aviation and property, CITIC's own interests for the future are in such areas as trade and electronics manufacturing.

THE PROTECTIONIST SNARE

PERHAPS HONG KONG'S most persistent external problem is the threat of protectionism. Indeed, names like Ed Jenkins and Dick Gephardt are probably better known in the territory than they are in most parts of the United States.

Hong Kong's problem is that it gets lumped together with the likes of Korea, Taiwan and Japan, when in fact its success has come without resort to protective tariffs, quotas and the subterfuge non-tariff barriers. It is an even more painful situation because while Hong Kong is the world's 13th largest exporter, it is the 12th largest importer, buying everything from raw materials to consumer goods. It even imports much of its drinking water.

A vision of elegance on Hong Kong harbor.



Open your eyes from a dreamy slumber and cast them on Hong Kong's harbor. Then sip your freshly brewed morning coffee. The morning paper that awaited you now read, it's time to enter the bustle just outside the quiet elegance of your room. But take heart. When you return tonight tired and spent, the Hotel Nikko Hongkong will wrap its arms around you and make you feel it's good to be home again. One of the world's finest 5-star hotels, where elegance and hospitality are not the exception, they're the rule.

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Shangri-La's existing hotel in Beijing where the group are also building the spectacular China Town Center which will open at the end of next year.

As a result, the Trade Development Council is as aggressive in encouraging imports – because the more competition the better the price – as it is in promoting Hong Kong's own exports.

The Council's Jack So suggests that perhaps the *hungry tigers* of Asia should learn a lesson from Hong Kong: "What we are doing could change the way the world does business. Hong Kong practises what America preaches."

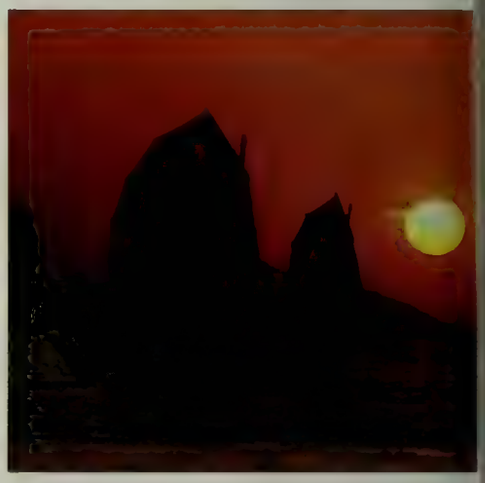
So reasons that Hong Kong's absence of protectionist trade barriers demonstrates vividly to other nations that an economy can successfully do business in the international marketplace without resorting to restrictive measures. Dr Peter Allgeier, the United States assistant trade representative, recently supported this view when he urged South Korea and Taiwan to follow Hong Kong's policy of free and fair trade.

So contends that if Hong Kong gets a fair deal from its major markets and trade partners, particularly the United States, then the message will not be lost on the politicians and businessmen elsewhere. If fair and free trade practices are seen to pay dividends, these other countries may be persuaded to throw open their closed doors. "We are setting an example to the rest of the chopstick belt," So says, referring to the nations that sweep across Asia in a huge swathe from Japan and Korea to Thailand and Singapore.

THE BOTTOM LINE

THERE ARE GOING TO BE A lot of bumps over the next nine years leading up to 1997. There will be many more bumps on the road beyond 1997. Some of these bumps may be so severe that the *chicken littles* run shouting the end has come – while foxier investors get ready for the next boom. That in fact is the bottom line on Hong Kong: none of these bumps is likely to be serious enough to knock the territory's economy off course.

China wants and needs Hong Kong to remain economically dynamic. The Hong Kong government is continuing to develop the territory's infrastructure – new roads and railroads; additions to the giant container terminal, already the world's busiest; Asia's largest and most sophisticated convention and exhibition center; new tunnels; endless public and private housing projects. "We're building for the future," Lydia Dunn emphasises, "and that is a future that extends long after 1997".



A traditional junk in what has just become the world's busiest container port.

The text of this special advertising section was written by Kevin Sinclair, with additional contributions by other writers. Mr Sinclair is a well-known freelance writer based in Hong Kong.

HONG KONG: THE BASICS

Area: *413 square miles.*

Location: *At the mouth of the Pearl River estuary in Guangdong province, China; on the same latitude as Hawaii.*

Population: *5.67 million.*

Languages: *Cantonese, English, Mandarin.*

Political status: *A British Crown Colony scheduled to revert to Chinese sovereignty under the People's Republic of China as a Special Administrative Region at midnight on June 30, 1997.*

Real GNP growth: *13.6% (1987); 5-7% 1988 estimate).*

Domestic exports: *$25 billion, up 26.8% (1987).*

How to get there: *United offers non-stop service from the west coast; United, Northwest, Cathay Pacific, Japan Airlines and Singapore Airlines have one-stop or connecting services from continental United States.*

Where to stay: *Few cities offer as many fine hotels as Hong Kong. On Hong Kong island near the Central business and financial district, there is the Furama, Hilton, Intercontinental, Mandarin and the Victoria. A Grand Hyatt is under construction at the site of Hong Kong's harborside, state-of-the-art Convention and Exhibition Center.*

On the Kowloon side of the harbor, there are such world-renowned hotels as the brand new Hotel Nikko, which brings the superb service of Japan Airlines hotels to Hong Kong, an arrival that many seasoned travelers have been looking forward to; the Shangri-La, which offers some of the territory's largest and most handsome rooms which fit in with the Shangri-La philosophy of providing an atmosphere of peace and tranquility; the Regent, with its splendid harbor views; and the Peninsula.

Where to eat: *Whatever the cuisine, Hong Kong offers some of the best available. The following are particularly recommended. On Hong Kong island: the Mandarin Grill; Bentley's (seafood); Camargue (French); Lam Fook Moon (Cantonese). In Kowloon: Margaux (French) and Nadaman (Japanese) at the Shangri-La; Lai Ching Heen (Cantonese) and La Plume (French) at the Regent; Spring Moon (Cantonese) at the Peninsula.*

An atmosphere of calm and tranquility. A commitment to unobtrusive yet outstanding service. A dedication to luxury and excellence so valued in the five Asian lands where we operate hotels. This is the promise of Shangri-La.

In China, that promise has been realised at the **Shangri-La Beijing** and the **Shangri-La Hangzhou**. A promise soon to extend to the **China World Hotel** and **Traders Hotel** in the China World Trade Center complex.

And in 1990 the **Island Shangri-La Hong Kong** will offer those same uncompromising standards of accommodation and service for which we are known and of which we are proud.

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WHAT HONG KONG MEANS TO BUSINESS:

The Case of K. S. Li

If there is one man whose career captures what Hong Kong is all about, it is probably Li Ka-Shing. Widely regarded as the territory's wealthiest individual – worth in excess of $2.5 billion – Li is Hong Kong's answer to Horatio Alger.

Li's father died when he was just 14, forcing the boy to stop his formal schooling to support the family. Ten years later Li established his own company, Cheung Kong, to manufacture plastic flowers. Soon, however, he made the jump to property development and began to build the basis of his fortune.

After taking Cheung Kong public in the early '70s – with bonuses and splits those original shares have increased something in the order of one hundred times in value – Li achieved real prominence in the world of Hong Kong business in 1979 when he became the first Chinese to gain control over one of the venerable British *hongs* or trading houses, Hutchison Whampoa.

Today Li is one of the few businessmen anywhere in the world who has the resources and the ability to operate on a truly global scale. His activities still center on Hong Kong, where his five public companies count for a sixth of the total market capitalization of the Hong Kong Stock Exchange.

These include Cheung Kong, perhaps the most dynamic and successful of the property development companies; Hong Kong Electric, one of the territory's two electric utilities; and Hutchison Whampoa, which is everything from trade, container terminals and mobile telephones to drug stores, supermarkets and cable TV.

Overseas, Li and his companies have been especially active in Britain where they have important stakes in Cable & Wireless and Cluff Oil; and North America where they have acquired control of Canada's Husky Oil and moved into a number of property ventures, such as a C$2 billion, 15-year project to redevelop the Vancouver Expo site.

Given Hong Kong's fixation on 1997 and Li's importance to the territory's economy, every move overseas he makes tends to fire speculation that he is shifting the focus of his energies out of Hong Kong. Li obviously tires of denying such speculation – after all he first invested in Canadian property two decades ago.

"We will never move our headquarters out of Hong Kong while I am in charge," Li states clearly, "and so long as the headquarters are here, the assets belong to Hong Kong. Over the next five years I don't see us having more than a third of our assets outside Hong Kong."

Today that figure is at 20% – a rather low level of international diversification for a group the size of Li's. "The problem," he admits, "is that we have become so big we cannot put 100% of our investment in Hong Kong."

As Li notes, while projects like the Vancouver development attract much publicity, what his group is doing in Hong Kong is much greater by any measurement. "In 1988 the public companies will spend about HK$20 billion on projects in Hong Kong," Li says, "ten times more than I'm committing to the Expo site this year."

Above all Li is a builder. He has the ability to spot undervalued or underutilized assets, acquire and reorganize them, and then help them grow. The companies he controls are well-managed by professionals. Although the group takes a global perspective, looking for opportunities especially in the U.S., Britain, Canada and Singapore – as well as Hong Kong and China – they do not make the mistake of trying to export the Hong Kong experience, but prefer to tie up with other professionals.

Li is a soft-spoken man, conservatively, even simply dressed. Apart from extraordinary business acumen, an ability to hire and listen to good managers and a willingness to do the homework needed to find and execute big deals, the secret of Li's success is that he is so well regarded by his peers. "People trust me," Li acknowledges. "They enjoy being partners with the group – they become our close friends."

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The food in Hong Kong was wonderful, and we were charmed to learn it has meaning as well as flavour. Fish means abundance, pig's knuckle brings prosperity, kumquats bring luck and long noodles mean long life.

You can eat your way to health, wealth and happiness! This faith in the power of food is one of the ancient Chinese beliefs, still very much alive in Hong Kong today.

We wandered through dark, smoky temples, watched a dragon dance and explored villages where life doesn't seem to have changed in centuries. And we really got the flavour of a timeless culture, still thriving.

If you thought Hong Kong was just a great place for shopping, you're in for a pleasant surprise. Not to mention some memorable meals.

See your travel agent or mail the coupon today for details of the most unforgettable holiday you'll ever have... in Hong Kong.

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Here's a place where the financial supermarket—a one-stop shop for everything from stocks to life insurance—really works. What's the secret?

"They have faith in us"

By Toni Mack

THE PROFESSIONALS who sell merchandise by mail figure that when 2% of their mailing list responds to an offer it has been a stellar success. Not long ago USAA, the $11.7 billion (assets) San Antonio-based financial services company, sent MasterCard applications to 240,000 of its customers. "We said, 'They have faith in us. We'll get a 10% or 12% response,'" recalls Chairman Robert F. McDermott. Then he grins. "We got 52%."

No wonder McDermott, a silver-haired, trombone-playing retired Air Force general, likes to brag about the relationship between USAA and its customers. In the last five years that extraordinary relationship has more than tripled USAA's assets. Unfortunately, you can't buy a share of USAA. It's a mutual company, United Services Automobile Association, owned by its members. You probably can't even become a member. But you can learn a lot from USAA about how to run a business.

It succeeds by keeping a tight focus on, and taking tender loving care of, its members—"the family," McDermott calls them. To be in the family you must be a current or former commissioned officer in the U.S. armed forces or a close relative. Formed in 1922 by U.S. Army officers whom insurers had deemed too risky for auto insurance, USAA now sells other property and casualty insurance as well and has life and health insurance operations, mutual funds and a savings and loan. But the target market group is still the same: U.S. military officers, who tend to be solid citizens and good risks.

USAA's 1.3 million members earn twice the U.S. median income and graduate from college at about twice the U.S. rate. USAA doesn't run credit checks when members apply for auto insurance, as many insurers do. "We count on them telling us the truth, and we usually get the truth," says McDermott.

One example is Lodwrick Cook, now chairman of Atlantic Richfield, who started doing business with USAA during his Army days in the early 1950s. Once when he was home on leave, his mother took his clothes to a dry cleaner, which shortly burned down. USAA promptly reimbursed

William Overbeck

USAA's trombone-playing chairman, Robert F. McDermott
"If you put service number one, everything else will follow."

Cook. Then he found the clothes were really safe at another dry cleaner. So Cook sent the claim money back to USAA. Today he carries USAA auto, homeowners and life insurance. "They trust me, and I trust them," he says happily.

"Our success stems from the fact that our membership is loyal," says Charles Bishop, formerly the head of USAA's life operations and now the firm's S&L president. "So we're obliged to make our products good—the highest quality at the lowest price, backed by the best service." Hyperbole? Not according to many insurance consumer advocates, who say it is all true.

Good service makes members loyal, which in turn saves money, which keeps prices low. More than 75% of new members hear about USAA from a fellow officer or other USAA members. No need then for sales agents and their expensive commissions. Result? Advertising, direct mail and other marketing costs total just 7.3% of premiums written at USAA, versus 16.9% for the whole property and casualty industry. That helps keep USAA's premiums 10% to 25% below industry averages.

USAA management mirrors its membership. McDermott, 67, who is known as "McD" around USAA, came to the company in 1968 after 12 years as dean of the Air Force Academy. Along "Mahogany Row," USAA's executive suite, eight of the nine executives are former officers themselves. "The other day I took a call from an irate member," says Ray Otte, executive vice president. "He said, 'I'm Colonel So-and-so. Who's this?' I said, 'I'm Colonel Otte. Now how can I help you?' He calmed down. These people feel that we can understand their problems."

USAA's membership naturally swells during wartime. In peacetime, McDermott has found other ways to grow. In 1973 he started a subsidiary to extend insurance to members' grown children. Now it also sells to their grandchildren, and soon McDermott will open it to parents and great-grandchildren as well. "We're taking them in as part of the family," says McDermott. Today, these "associate members" number 414,000. (They're a riskier bunch than the original members, something their premiums reflect.)

USAA got into mutual funds through what McDermott calls the "front door/back door" approach. "We must have the capability in-house to make investments [for the insurance companies]," says McDermott. "That's the back door. Why not go out the front door and offer mutual funds?" In 1978 USAA's 2 mutual funds had about $60 million in assets. Now there are 11, all no-load, with total assets of $4 billion. Other "front door/back door" services include real estate partnerships and a discount brokerage.

McDermott's fastest-growing venture is USAA Federal Savings Bank, a 4½-year-old thrift with $1 billion in assets and rock-solid performance ratings. The S&L makes home mortgage and consumer loans, but mostly it lends money on its 785,000 no-fee, variable-rate MasterCard accounts. Net chargeoffs are a fraction of MasterCard's average.

Together, these financial service operations work the way the financial supermarket was supposed to work—and as few have. USAA grows not just by signing up new members but also by selling new services to old members. USAA routinely encloses mutual funds fliers and the like when it sends out monthly insurance bills to its members.

It's a felicitous circle: Both the property/casualty and the life divisions pay annual policyholder "dividends" that are really rebates on premiums, based on underwriting success. Beyond that, USAA pays out some of its consolidated net income to members as real dividends—$82 million out of a record $481 million last year. (Some 600,000 members qualified for dividends based on level of premiums.) Part of the remaining profit goes into equity accounts akin to retained earnings, which the members take when they leave USAA.

Of course, it works only so long as USAA provides good products and service. McDermott is irked by an Ernst & Whinney survey of 154 insurance chief executives. "They ranked customer service 11th out of 15 priorities," says McDermott. "At USAA, it's number one. And if you put service number one, everything else will follow." ■

The Money Men

Michael Gianturco is a stock picker with some unusual rules. For example, he avoids the stocks that look best to him.

Technology has no season

By Peter Brimelow

"I HATE PAPER," says Michael Gianturco with sudden intensity, explaining its utter absence from the minimalist office (bare floorboards, glass table) out of which he and two minicomputers publish the *Princeton Portfolios* investment letter. Gianturco, 45, really means it. If you want to get his service in the mail, forget it. His $225-a-year service is now available only to subscribers who can receive its weekly bulletins and irregular updates on their personal computers. A politely repressed spasm of distaste flickers across his face when he's asked to exhume a printer from his basement and crank out hard copies of his recent views.

What Gianturco likes is high technology. The quiet, gaunt, stooping son of a physician, he graduated in English and mathematics from the University of Illinois and worked as a science writer for NASA and as a financial public relations consultant for various Texas computer companies before starting his letter in Houston in 1978. Reflecting his interests, it was originally called *High Technology Investments*.

So entranced was he by high technology that, even after starting his

letter, he earned a master's degree in biochemistry part time from the University of Houston because he became intellectually intrigued ("naively") by possible parallels between computers and the functioning of the brain. ("There aren't any. The memory is a uniquely biochemical machine.")

High technology appears to like Gianturco, too. Since 1983, when Mark Hulbert's Washington, D.C.-based *Hulbert Financial Digest* began monitoring Gianturco, his recommended portfolios have appreciated 157%, versus 130.2% for the S&P 500 with dividends reinvested. This was the top performance of any letter followed by Hulbert over the period. Gianturco says he would have been among the top performers in 1982, too, and Hulbert, although he has not yet checked back, says he has no reason to doubt it.

One reason for Gianturco's success is that he is constantly refining his approach. Originally, he says, he expected that his knowledge of the scientific literature would enable him to anticipate imminent breakthroughs. But he now thinks that science, while guaranteeing ultimate success, is heavily qualified in the short run by purely market factors.

So Gianturco has developed a disciplined portfolio management system. He screens his database of some 500 high-technology stocks for factors such as strong sales growth (not earnings growth, because high-tech companies usually plow back earnings), financial strength ("debt is disastrous"), price/earnings and price/sales ratios, excessive stock float and institutional holdings.

In an unusual step, having ranked the stocks, he then discards the top 10 or 15, reasoning that they will already be attracting analysts' attention. Finally, he may visit his candidate companies and he studies the action of their stock prices on a chart (to get an idea of what other technicians will do—"you have to shut the door on rational thinking"). His object: to build a portfolio of 8 stocks, big enough to get diversification but small enough to benefit from the stratospheric appreciation that individual high-technology stocks periodically display.

Unlike most advisers who specialize in sectors, Gianturco is not in love with his stocks. He's decided that buying and holding is simply not a conservative strategy with volatile high-technology stocks. He will sell out completely if enough of his stocks give technical sell signals, and will even go short using put options. Rather than give precise directions in advance, which he believes encourages "predatory traders," he instructs subscribers to check their computers for bulletins when representative "indicator stocks" reach critical levels.

Craig Blankenhorn

Princeton Portfolios' Michael Gianturco
High technology, discipline and shutting the door on reason.

High technology is a diverse domain, says Gianturco. He points out that in 1985, widely seen as a bad year for technology because of the much-publicized semiconductor slump, his service focused on biotechnology and ended up ranked third by Hulbert. For long-term investors, he recommends Genentech ("it's like IBM"), Intel, Apple and Digital Equipment.

You will be hearing much more about Gianturco. Having moved his wife and son from Houston to the edge of the Princeton campus—New Jersey has high tech and cooler weather for water sports—he is finally beginning to get national publicity. Ultimately, he expects to focus entirely on money management (minimum account $100,000) and to pursue numerous other interests. His latest book, *The Stock Market Investor's Computer Guide* (McGraw-Hill), displays a deep knowledge of the little-known but astonishingly creative investment work being done by computer hackers. Next, he says dreamily, he'd like to write a book about the brain. ■

Edited by Jeffrey A. Trachtenberg

Hal Riney's creative genius has produced some of our most memorable modern advertising. He has done it, he explains, by throwing out much of Madison Avenue's conventional wisdom.

Marketing against the mainstream

IN ANY BUSINESS there are lots of talented people but only a few real standouts. The current hot name in the advertising business, San Francisco's Hal Riney, beat out agencies ten times his size for the coveted $90 million General Motors' Saturn car account. What makes this marketing maverick so different? How does he stand out from the advertising crowd?

Most modern ad agencies, he is convinced, are obsessed with market research and focus groups. They spend a lot of time trying to uncover customers' attitudes about laundry soap, or why they buy a Buick and what they think of the new Coke. Then they base their commercials on the results. That's the safe, conventional way to write advertising.

Riney will have little of that. "We get a lot of information on attitudes and lifestyles," says Riney, "but we may choose not to follow that material. Quite often we don't."

Hal Riney is the modern master of human images and fond memories. He is the foremost practitioner today of touchy-feely advertising, of commercials that make you feel good instead of shouting at you to rush out and buy the item. 'I don't understand agencies which create commercials that are mirror copies of their research," Riney says. Most of it, Riney insists, is just "window dressing agencies use to help clients convince themselves they've made good choices." A Riney commercial does not say you will get the girl if you use the product. It does not say you will go faster or farther or cheaper if you use the product. It does not say your business will fail or that you will be fired if you do not use the product. Never mind that market research tells you that the target group has sex on its mind or saving money or fear of failure. Riney doesn't think this is the way to move merchandise.

So Riney doesn't pitch the fast service or low rates at Alamo rental cars. Oh, no. He sells real cowboys herding cattle in a soft early afternoon under big skies, men polite enough to tip their hats to a lady who cruises by in an Alamo car.

For the holiday season, Riney would never hawk the low price of low-priced André champagne. Instead he poses three folks—we never

Advertising man Hal Riney
The foremost practitioner today of touchy-feely advertising.

You know how it was as a kid. You stared at the sand long enough and out of the corner of your eye you spotted something no one else saw. And it was the catch of the day.

We look at the oil business like that. We can drill where everyone else does. Or we can use innovation to drill where no one has drilled before. We can build new refineries. Or we can apply new technology to the ones we have so they work more efficiently.

That's why we were one of the pioneers of the North Sea drilling venture known as Ekofisk. A city at sea, it was the first major oil field ever discovered in Western Europe.

We led the way in low-cost, high efficiency refining technology for the production of quality premium unleaded fuels. And when others saw no potential in bottom-of-the-barrel crude, we developed the process that refines it into high quality gasoline.

And below our offshore rigs, a thriving undersea world complete with mussels, starfish, and scallops tells our environmental story. They regard the structure as a natural reef, and we don't see any reason to tell them otherwise.

Like a child searching for treasure, when you're looking for the undiscovered it doesn't matter as much where you look as how wide you open your eyes.

For more information write to Patricia Marshall, Phillips Petroleum, 16D-4 Phillips Bldg., Bartlesville, OK 74004.

Phillips Petroleum Company
Performing to meet
the challenge of change.

IF YOU LOOK HARD ENOUGH, YOU'LL BE SURPRISED WHAT YOU MIGHT FIND.

even see their heads—awkwardly seated around a coffee table at Christmas while one tries to cut a nasty-looking, stone-hard fruit cake. "At least one thing will always go right this holiday season. André champagne," says the understanding narrator. Such images are unlikely to persuade the Moët & Chandon buyer, but Riney isn't after the champagne snob; he wants to make ordinary folks feel good about a champagne that sells for about $3.99.

Part of the reason Riney's commercials work is that they are often cast with real people, be they the cowboys in the Alamo commercials or the ruddy-faced children in his Perrier campaign. "I use a lot of real people because the majority of people available as actors aren't really actors," says Riney. "People you can really count on, true actors, are very few. Most can't remember their lines."

Many on Madison Avenue think humor in advertising is highly overrated. People remember your commercials but forget the product. But humor will sell when it is understated, says Riney. "If we can find a denominator which is common to us all, being indirect and letting people fill in the other side of the cube on their own is important." Marshall McLuhan would have described Riney's work as cool, rather than hot.

Hal Riney harks back to the traditional, instantly understandable, glimpses of home in a Norman Rockwell painting. Look at the folksy campaign he created for Security Pacific, a major California bank. In it, a young boy glumly hands his report card to his mother, and trudges up the stairs. "Oh, Alex," she says on his way up. "Wait until your father sees this." Moments later dad's station wagon pulls in. He reads the grades, smiles slightly and takes his son up to the attic and pulls out one of his old report cards. A narrator explains: "Understanding is the ability to look at life through someone else's eyes." The boy looks up from his father's old report card and says, "Wow. It happened to you, too?" "Just once," replies Dad. As the scene closes the narrator adds a kicker: "Security Pacific . . . your bank for life."

It is a genuinely touching commercial which directly promises nothing. Nothing about CD rates, or automobile loans or automatic tellers. Instead it plucks at old memories, creates sympathy and conveys understanding. Whether it gains the bank more customers is something else, but Riney says the commercials are drawing favorable mail.

"Some of our clients ask whether our commercials will be intrusive enough," says Riney. "What they're really asking is whether our commercials will be loud and aggressive enough to stand apart from all the other loud, aggressive commercials."

A scene from a Riney Perrier commercial
Selling with emotions, not facts.

A scene from a Swanson commercial
A master of fond memories.

But even Riney will concede that tugging on the heartstrings is probably not the best way to sell just any product. Tender moments, for example, will probably not peddle stain remover or over-the-counter drugs. Which also may be why Riney's agency, Hal Riney & Partners, doesn't yet have any of those accounts. But it does have that Saturn account, one of the most sought-after pieces of business in recent years. Saturn's selection of the Riney agency stunned many in the industry who believed his firm was too small to service the new General Motors startup. Typically, large corporations prefer to work with large agencies.

"I've never understood that attitude," he says. "The main reason large agencies are so large and have so many of the large clients is they are reassuring to each other. People flock together in the illusion of safety in size. But the good advertising and good thinking that is done in an agency is done with one or two or three people. They're smart people. And they are smart in a small company or in a large one."

Riney has already said he will not do the standard automobile commercials that track gleaming cars driving on wet roads or stress price or engineering advantages. He is convinced that most television viewers don't care whether a car has 16 valves or gets 35 miles per gallon. Such information just doesn't register. And if the customers want that information, they can get it from the dealer.

"We have to provide something to the consumer that he or she thinks is worth watching more than once," he says. "Most of the commercials I like don't tell you exactly what you are supposed to think. You're supposed to put a little of your own energy into that thought process. If you do, you pay attention and remember.

"I don't think anybody who sees an automobile ad says, 'Honey, we've got $14,000 in the bank. I just saw an ad for this car and I'm going to go down and get one.' It's pricing, which we don't control, it's the sales process, which in many cases we don't control, it's distribution, which we don't control, it's the look of the car, which we don't control. All these things affect sales. Good advertising has to enhance the opportunity for selling. In banking and beverages, for example, it's hard to find real specific differences. So we spend our time thinking of how we can make people like that bank or that product better. We're creating positive images."

Riney, 55, has been in the advertising business all his professional career. He joined BBDO in 1956, and later worked for Botsford Ketchum, a much smaller agency. In 1976 he joined Ogilvy & Mather as head of that agency's San Francisco office. Two years ago he bought his way out of Ogilvy & Mather; today his company's billings total a little more than $200 million.

In a way Riney's success is as comforting as one of his better commercials. It shows that individual talent still counts in an age of giant agencies and mechanistic market research. Even the reassuring, mellifluous voice that narrates much of his work, for example, is his own. "I hate client meetings and I'm not much for dinners," he adds. "But I make up for that by actually writing and producing some work once in a while." ■

Dow has a brighter future zipped up tight.

You don't become a 13 billion dollar company without learning to manage risk. Without recognizing that a sunny future isn't always in the bag.

The Dow Chemical Company finances some of its growth with short-term commercial paper. They need to limit their exposure to interest rate rises. Like a lot of smart companies, they use futures and options on the Chicago Mercantile Exchange to manage interest rate risk.

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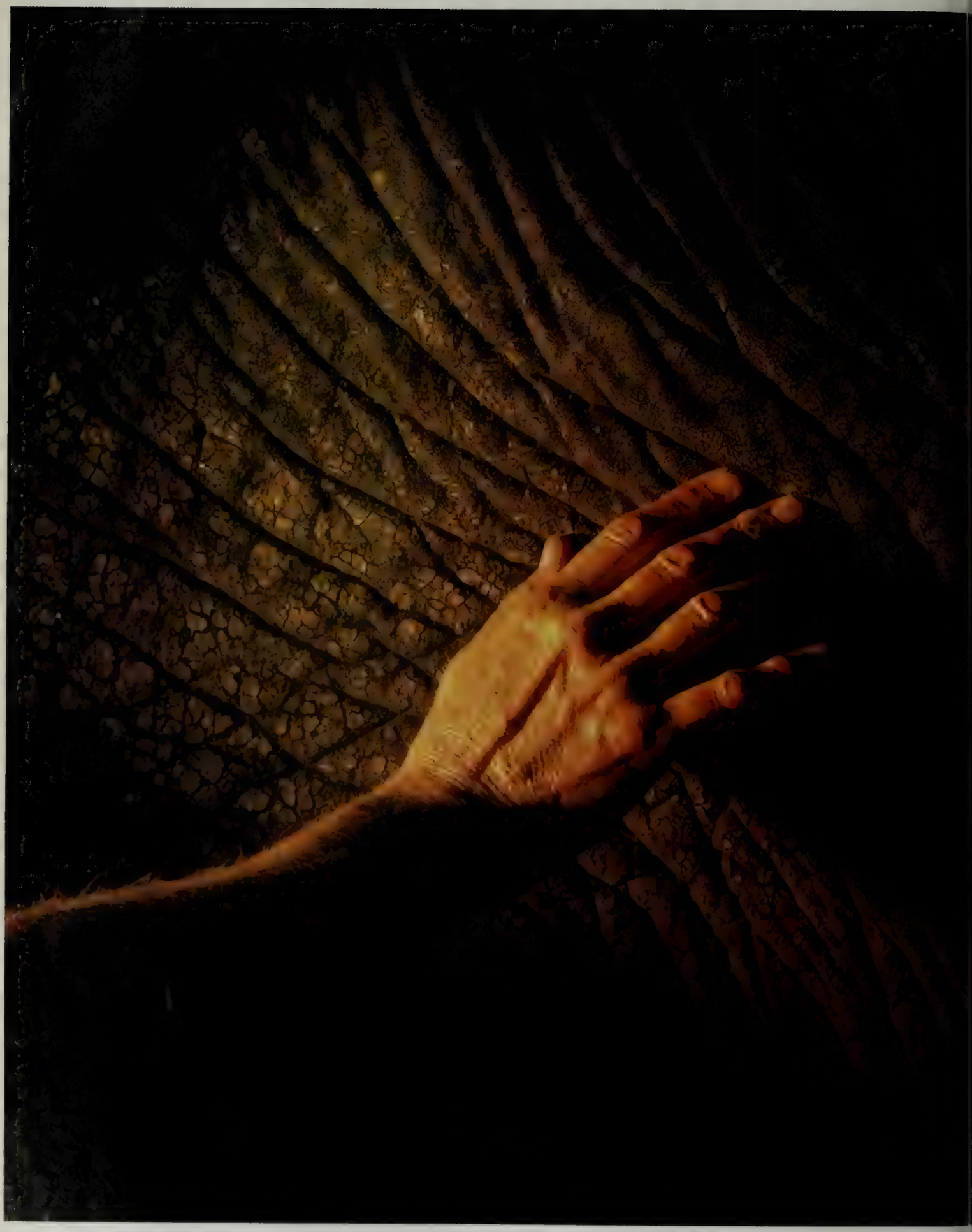


Look again.

A group of blind men
came upon an elephant.
One man ran his hand
along its flank and said,
"This is the tallest tree
in the jungle."
Two others examined
a leg and soon agreed:
"A column. Ionic perhaps."
Yet another felt its trunk
and then jumped back, crying,
"Look out, the dreaded
black mamba snake!"

We find this story amusing
and quite apt. After all, many
people see us as simply an
aerospace company; whereas
an equal amount of our efforts
are in the building and auto-
motive fields. We are a part
of nearly every car on the
road. And Carrier and Otis
still lead the industries they
began. But perhaps the best
way to think of us is not as
a collection of parts, but
rather as a single company
that shares ideas and resources
wherever it can. In other words,
one company with one goal:
united technologies.

UNITED
TECHNOLOGIES

Science & Technology

Edited by Gary Slutsker

When your dentist talks about "veneer" these days, he doesn't mean the furniture. He's talking about a remarkable advance in the "capping" of teeth.

Smile

By Edward Giltenan

MODEL PAULINA PORIZKOVA has one of the winningest smiles in glamourland, but when she posed for the cover of *Sports Illustrated* in 1985, she hardly cracked a smile. That's because until last year her teeth were spaced apart and discolored.

Where did all the spaces go? Credit the latest advance in cosmetic dentistry—porcelain laminate veneers. Porizkova is one of an estimated 250,000 people who were fitted with such veneers last year, up from only 2,000 in 1984. Says Klaus Pütter, 62, former head of European and African operations for Coca-Cola, who fractured seven of his front teeth in a fall last year and has been wearing veneers ever since, "My friends can't believe that these aren't my natural teeth."

Porcelain dental veneers first appeared in the 1930s as temporary devices for film actors with bad teeth. But only recently, with great strides in acid etching and bonding technology, has it become possible to install the veneers permanently.

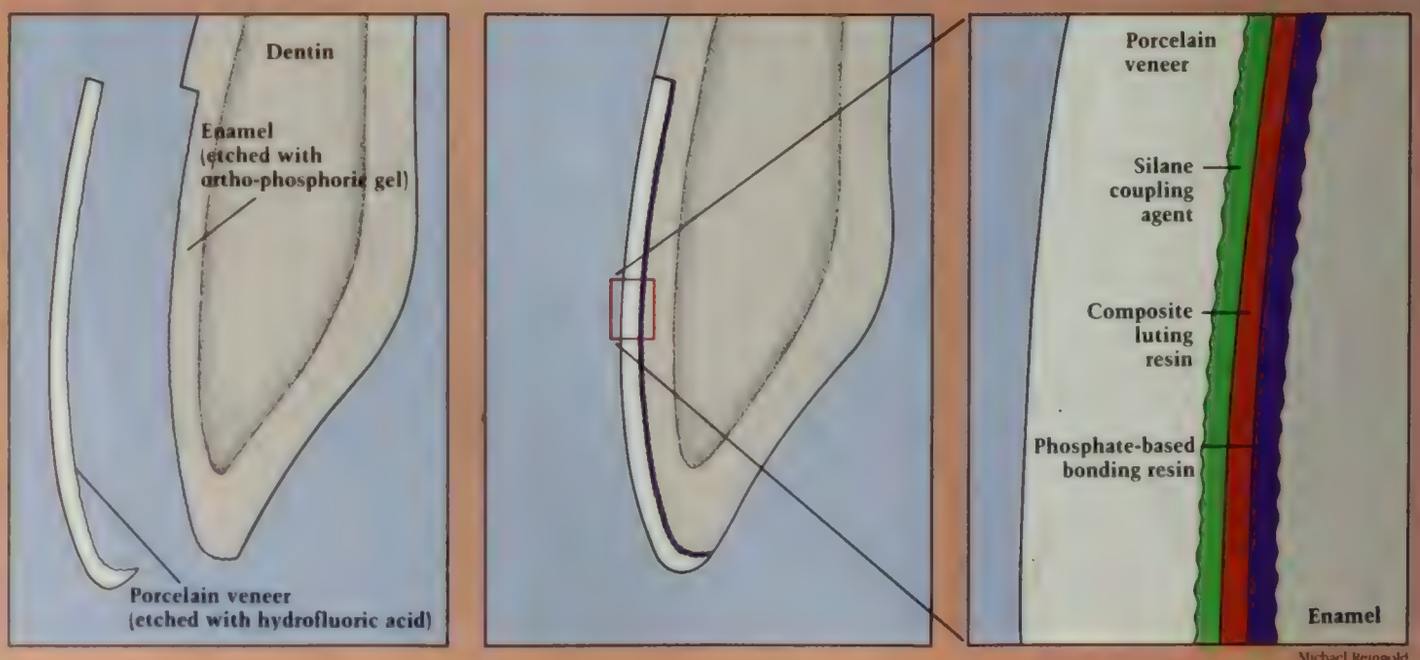
The new veneers require only a minor reduction of the natural tooth, which is a significant improvement over such earlier dental cosmetics as capping (in which natural teeth must be shaved down, then "capped" with new, prosthetic crowns). The veneers are also more stain-resistant than so-called bonding, in which existing teeth are resurfaced with a composite resin to hide stains, cracks and other imperfections.

The veneers are best placed on healthy teeth that can provide an adequate anchor. The most likely candidates are badly spaced teeth, those with bad tetracycline or tobacco stains, or chips and cracks.

The procedure is done in two trips. On the first, about 0.5 millimeter of enamel is removed from the tooth to compensate for the equally thick porcelain shield. A mold is then made of the patient's teeth and sent to a dental laboratory for custom fabrication of the veneers. One such supplier, Den-Mat Inc. of Santa Maria, Calif., has

A space-age smile

The marriage of veneer and natural tooth, as shown below in side view of a central incisor, is a two-step process. Microscopic holes are etched into both porcelain and enamel to create an interlocking grip. The union is then consummated using a mix of resins similar to those found in supersonic aircraft.



Michael Reingold

Guess who recommended a fax by Toshiba to the big boss.

When a company gets a Toshiba facsimile, amazing things often happen.

Phone and courier bills, travel expenses, and overtime go down. Productivity goes up.

And, many times, so do the careers of the people who were smart enough to recommend it.

That's because these machines use phone lines to send words and pictures. Anywhere. In as little as 15 seconds.*

Just think what that could mean to your company. Or to your competitors if they get one of Toshiba's complete line of facsimile machines first. Don't let them. Send for our free booklet. Or call 1-800-635-1220.

Free Booklet. "Guide to Facsimile: 14 Proven Ways You Can Save Time and Money with Facsimile." **Or Free Demonstration:** Call 1-800-635-1220, or mail coupon to Toshiba America, Inc., Facsimile Products Group, 9740 Irvine Blvd., Irvine, CA 92718

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Company Name _____

Address _____

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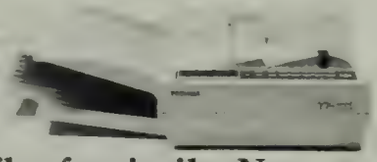

FBJL25

Toshiba facsimile. Now you see it.

*Per CCITT Test Chart

In Touch with Tomorrow

TOSHIBA

seen its revenues increase about 150%, to more than $20 million annually, since it began shipping veneers worldwide in 1984; local dental labs have also done well.

After the veneers are mailed back to the dentist, the patient returns for a second visit to have them installed. Conventional caps are held in place by glue-like adhesive material. Sometimes metal "posts" are inserted into existing roots as an anchoring device. By contrast, the new veneers use acid-etching and composite resins to create both chemical and physical bonds simultaneously.

To prepare the teeth, the dentist carefully dabs on an ortho-phosphoric acid gel, thereby creating microporosities in the enamel. Similar holes are etched on the underside of the veneer itself using a stronger liquid, hydrofluoric acid. When the veneer is pressed against the tooth, the pores interlock with each other.

The physical bond is further strengthened by painting the teeth with a phosphate-based bonding resin that adheres naturally to dental enamel. The underside of the veneer, in turn, is treated with a composite resin and silane coupling agent. The resin and coupling agent not only bond to porcelain but adhere to the phosphate resins on the teeth.

Dr. Larry Rosenthal

These dramatic before-and-after shots show how porcelain veneers can transform ugly teeth into a bright smile.

Once the veneer has been pressed into place, the bond is "cured" using a high-intensity beam of light that is focused on to the surface of each veneer for half a minute or so. "The resulting seal is stronger than the bond between natural enamel and the underlying dentin," according to Dr. Gerald McLaughlin of Rocky Point, N.Y., who holds a patent on one of several methods for making porcelain veneers.

At $300 to $600 per tooth, the new technology is hardly cheap. Moreover, problems can occur if the veneer is placed under the gum line, creating infection-prone irritations at root level. Inexperienced dentists can also accidentally remove too much tooth enamel in the preparation process. Many dentists have been learning the procedure on the job.

Yet dentists who know what they're doing have nothing but praise for the new technology. Dr. John Calamia of New York University has placed more than 600 veneers since 1983. "These restored teeth are strong enough to use as you would your natural teeth," he says.

Dr. Larry Rosenthal, who heads the New York Group for Aesthetic and Restorative Dentistry, has done over 3,000 veneers since 1982 with "almost no failure." He tells his patients they can expect up to ten years out of the veneers. As for what you can eat, Rosenthal says, "Go for it."

It's here, it's now

Factory automation has long been a key part of business investment in Japan, particularly in microelectronics. But it has lagged in the U.S. Now, quietly and without much notice, the long-delayed "factory of the future" has finally begun to make its appearance here. Items:

- Motorola, Inc. is now upgrading an already partially automated plant that produces cellular telephones in Arlington Heights, Ill. Motorola's conventional, nonautomated manufacturing plants require at least 300 to 400 workers to produce 1,000 units per week. But the Arlington Heights plant is already producing 3,700 units weekly with only 70 employees.
- Nabisco Brands is set to begin construction this August of a $600 million bakery in Garner, N.C. that will produce Oreo cookies—among other products—untouched by human hands. "Bakers" in this new facility will not wear white gowns and chefs' hats, but will sit in front of computer monitors overseeing ingredient mixes and production rates. The result will be better uniformity of product and reduced breakage compared with Nabisco's existing plants, the newest of which was opened back in 1973.
- General Motors has completed renovation and construction on an almost totally automated assembly and finishing plant in Doraville, Ga. that does everything from painting car bodies to installing and testing dashboard instruments. The new plant has robots that are equipped with vision systems to prepare metal joints, and electric robots that paint the cars completely. Conventional conveyor belt assembly systems prevent cars found with defects from being taken out of sequence, but the new plant uses a modular arrangement that permits a car to be routed again and again through the process until any problems have been corrected.

After years of stagnation, capital spending by manufacturers has finally rebounded, and a growing component in

Where the money goes

Japan has long been a leader in factory automation. But as these industrial sectors reveal, U.S. investment is now growing rapidly across the board as well.

Industry	U.S. expenditures on factory automation 1983 (mil)	1987 (mil)	1992 (mil)
Aerospace	$996	$1,241	$1,495
Automotive	3,386	5,739	7,722
Machinery	1,394	2,171	3,487
Electronics	1,295	2,171	4,982
Other manufacturing	598	931	2,242
Food & beverage	299	465	747
Chemical & petroleum	1,195	1,551	2,242
Other process industries	797	1,241	1,993
Total ($billions)	9.96	15.51	24.91

Source: Dataquest, Inc.

that spending is for factory automation. Since 1983 spending on automation has nearly doubled, to more than $17 billion for 1988. Where's the money going? Into everything from robots to whole computer-managed facilities built from the ground up.

Take the sheet metal plant that Boeing Co. is having built in Auburn, Wash. When fully operational in 1991, the plant, designed around a computerized system of self-steered vehicles, conveyor belts, monorails and bridge cranes, will cut the time required to make sheet metal parts from 40 days to four.

Nabisco Brands' Garner, N.C. bakery will automate every aspect of cookie production from order entry to final packaging and shipment and everything in between. Not enough flour in the Oreo wafers? A computer will then send a message to add more flour to the batter or to increase the baking time.

Suppliers of such products as industrial robots (GMF Robotics Corp.), computerized machine tools (Cincinnati Milacron) and computerized industrial design equipment (IBM) are benefiting from the boom in factory automation. So, too, are a number of engineering consulting companies including Combustion Engineering, Fluor Corp. and Bechtel.

Until recently these firms had been suffering from the decline in demand for Third World megaprojects like hydroelectric plants and petrochemical complexes. The automation of the American factory is giving them a new lease on life. Thus, the Austin Co., headquartered in Cleveland, a National Gypsum subsidiary involved in design and engineering work, expects contracts on highly automated "factories of the future" to account for 30% of its business by 1990, up from 15% in 1984.

Some of the problems that are dealt with by these firms are complex, demanding creation of whole new products. Austin teamed with Kalman Floor Co., for example, to create the Floor Crab, a self-propelled electronic device that measures the surface of industrial floors. "Floor flatness is pretty mundane until you have an automated storage and retrieval system that's 60 feet tall," says William Welter, a vice president of Austin's consulting arm. Welter points out that a seemingly minuscule, ¼-inch variation in the height of the floor can make the upper reaches of a moving, 60-foot-tall storage and retrieval crane whip around like a wheat shaft in the wind.

—Ruth Simon with Neal Santelmann

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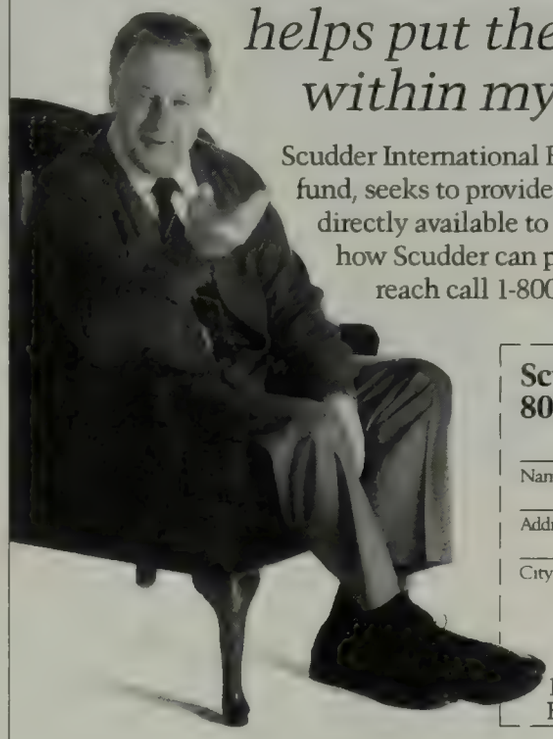

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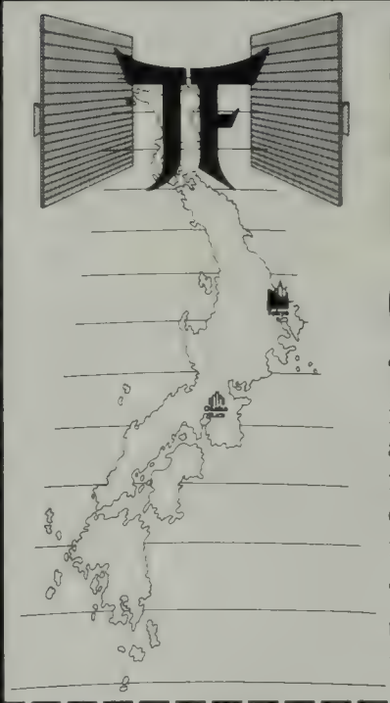

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Personal Affairs

Edited by William G. Flanagan

Exotic, colorful, talking birds are all the rage as pets, but understand what you are in for. Canaries they're not.

A bird in the hand

By Gail Buchalter

AFTER CATS AND DOGS, birds are now America's pets.*

Birds have more than a few things going for them. They require less space than dogs or cats, are seldom banned or restricted in apartments or condos, and they don't go for walks. Many can be taught tricks—words, even arias. Most important—this always surprises people who have never been around anything other than canaries and budgies—they are intelligent, can relate well to humans and can even be affectionate.

The size of the bird business today surprises some because a great deal of it is underground and, hence, unreported. *Pets Supplies Marketing* magazine last year surveyed 10,500 independent pet outlets nationally and reported that their sales of birds, feed and related paraphernalia topped $200 million a year. In all, the industry is estimated to generate at least $300 million annually.

"It's impossible to know how many birds are out there since it's a small entrepreneurial industry that represents a subterranean culture," says Marshall Meyers, executive vice president and general counsel for the Pet Industry Joint Advisory Council, a trade organization. Indeed, many a bird fancier has discovered that breeding birds can be a lucrative sideline, easily shielded from the IRS.

Nowadays, about 80% of all birds sold as pets are domestically bred. However, most of the popular "talking" birds are still imported from the

** In the U.S. there are now at least 45 million pet birds, compared with 49.4 million dogs and 57.8 million cats.*

Dreyfus Corp.'s Howard Stern and pet double yellowhead Amazon, named Inca
Talkative, acrobatic, but a bit nippy.

wild. "Generally, hand-raised birds are better than wild-caught ones," says Ginette Hemley, director of the World Wildlife Fund's trade marketing program. "We encourage people to buy captive-bred birds because they make nicer pets and are usually healthier."

But about 800,000 birds are still imported legally into the U.S. each year. Probably another 200,000 are smuggled in, mainly via Mexico. You can usually tell if a bird is imported or domestically bred by looking at its leg. Every legally imported bird is placed in quarantine for 30 days to check for disease. For parrots, the U.S. Department of Agriculture then clamps a stainless steel band, stamped with three letters followed by three numbers, around the bird's leg. Some domestic breeders, on the other hand, put seamless, permanent metal bands around birds' legs when the birds are newly hatched to prove that they have been hand-raised in captivity.

Smugglers, of course, are hip. They sometimes band birds just as legal breeders and importers do. If the species is endangered or nearly extinct, and if your little beauty is ridiculously cheap, chances are good it's a smuggled bird.

If you are considering adding a bird to your family, think again. "I can't tell you how many people call me, asking me to take their birds off their hands," says Alan Lieberman, curator of birds at the San Diego Zoo. "They think every cockatoo will automatically be like Baretta's bird. Instead, they find they're noisy and eat the furniture."

If you're still for it, here are some other thoughts to keep in mind.

• *Birds eat, therefore . . .* The mess can be considerable, especially with larger birds. Parrots live up to 70 years if properly fed and cared for, and some have made it beyond 100. Even smaller birds like cockatiels *(see box, right)* can live 20 years. So take time in deciding which kind of bird you want. Most reputable dealers will allow you to check the bird out with a vet before the sale is final.

• *They can't stand being ignored.* Especially at first, birds require lots of attention, or they will not relate to their owners. In cases of neglect, some will pluck out their feathers, and others may even die. Note: Some birds will bond to only one person if the care, feeding and handling of the bird is left to one family member.

• *Training requires patience.* Even a hand-fed, domestically bred bird may take a few days or even weeks to

Robert Pearcy

Moluccan cockatoo

Sherry Lee Harris

Yellow nape Amazon

Robert Pearcy

African grey

The most popular birds

Type	Size (inches)	Characteristics	Life span (years)	Cost
MACAW PARROTS	30-36	Biggest, most colorful parrots; loving, but the powerful beak demands respect	60-plus	
Hyacinth				$8,000-10,000
Scarlet				2,000- 3,000
Blue and gold				1,500- 2,500
Green wing				1,000- 2,000
COCKATOOS	14-20	Most affectionate of all parrots; like 2-year-olds in temperament	30-50	
Moluccan (salmon-crested)				1,500- 2,000
Lesser sulfur-crested				1,000- 1,500
Medium sulfur-crested				2,000- 4,000
AMAZON PARROTS	14-16	Playful, good mimics, acrobatic, operatic, clever, a bit nippy	30-70	
Double yellowhead				$1,000- 1,500
Blue front				500- 700
Yellow nape				1,000- 1,500
AFRICAN GREY PARROTS	12-15	Most intelligent but not too cuddly; great mimics, good talkers	35-50	700- 1,500
TOUCANS	12-15	Not of parrot family, not easy to tame; messy, tough to care for	10-25	500- 1,500
CONURES	6-20	Sleek parrots, do well in small cages; playful, good with kids; squawky voices	15-50	50- 800
COCKATIELS	10-12	Good whistlers; like to be petted; good starter bird for youngsters	10-20	40- 150
PARAKEETS	6-8	Best talkers among small birds; personable, relate well to owners	10-12	10- 30

Toucan

Joan Balzarini

Conure

Sherry Lee Harris

Cockatiel

Robert Pearcy

climb up on your hand and shoulder, depending on type, age and how it's being treated. There is no shortcut to getting your bird to talk, either. Think twice about prerecorded tapes. Says Karyn New, editor of the magazine *Bird Talk*, "Only a small percentage of our readership has had success teaching a bird to talk with the help of a cassette. If you use an endless loop, the bird will just tune out. In order to get a bird to talk, it takes ten minutes a day, three times a day of repeating a certain word or phrase. If the bird doesn't learn after one or two months, try another phrase."

• *Remember, they have wings.*

Rocky Thies

Economist Arthur Laffer and his scarlet macaw, Red
Watch out for that beak.

The quickest way to lose your bird is to leave a window open when the bird is out of its cage. Have the bird's wings clipped occasionally, as well as his claws. When his playfulness leaves your hand looking like a pincushion, it's time for a pedicure at the pet shop.

• *They aren't crazy about kids* or other pets, generally. Never surprise someone with the gift of a bird, especially if he has young children or other pets. Some bird owners also have cats or dogs, and some birds adjust to children better than others, but check with your pet dealer beforehand about his store policy on returns. ■

Walking into shape

Walking briskly and conscientiously is no status builder, but it can do a power of good. If you walk briskly three to five times a week for about 25 minutes, you will not only beef up your heart rate, you are also likely to lose weight. A corpulent 200-pounder, for example, should easily lop off 18 to 25 pounds by walking 45 minutes four times a week in a year without changing eating habits.

And it's all the exercise needed for heart and lung fitness, according to a recent article in the *Journal of the American Medical Association*. Says Dr. James M. Rippe, one of the authors of the *JAMA* article, and the director of the exercise physiology laboratory at the University of Massachusetts Medical School: "Sustained, brisk-paced walking can exercise your heart and lungs just as vigorously as more strenuous exercise, with less wear and tear on your muscles and no need to wear anything special but a pair of shock-absorbing walking shoes."

We are not talking here of speed-walking, probably the only Olympic-class sport that provokes giggles. While you should swing your arms and legs to get maximum benefit, you don't have to learn a whole new way of walking. But you have to walk properly. That means getting your heart beating fast enough to give it a workout and sustaining that rate for 20 to 30 minutes, three to five times a week. The average person would need to walk 4.1 miles per hour in order to gain benefit from walking, according to Dr. Rippe. Normal daily walking is done at about only 3 miles per hour.

The heart rate needed to benefit your heart and lungs is 70% of your maximum predicted heart rate. To figure out maximum heart rate, subtract your age from 220 beats per minute. If you're 50, for example, your maximum heart rate would be 170. So you should exercise at a rate greater than 119 beats per minute, or 70% of 170. When you start walking, strap on a watch with a second hand, and count the number of times your heart beats within 15 seconds. Multiply that by 4 and you'll know the rate at which your heart is beating while you walk. If it is less than 70% of your maximum predicted heart rate, pick up the pace. (If it's more, check with your doctor.)

To check your heart rate, place your index and middle fingers on the pulse point where your carotid artery runs between your ear and collarbone.

Over time, your heart will get used to the increased exercise and your heart rate will slow down, so you'll have to increase your pace.

The only equipment you'll need are walking shoes that absorb the shock of walking better than running shoes can. Companies like Nike, Reebok and New Balance make walking shoes that cost between $50 and $100.

A couple of references can be useful. The Rockport Co. of Marlboro, Mass. has developed the Rockport Fitness Walking Test. Write to The Rockport Fitness Walking Test, Dept. W, 72 Howe St., Marlboro, Mass. 01752. And a recently published book on the subject is: *Pacewalking: The Balanced Way to Aerobic Health*, by Steven Jonas and Peter Radetsky, Crown Publishers, $9.95. —**Francesca Lunzer**

S C O R P I O

DESIGNED TO HANDLE THE MOST DEMANDING STRETCH OF ALL: YOURS.

The truth is, most German cars are a lot better at handling the Autobahn than they are at handling the human body.

One luxurious exception is the Scorpio touring sedan. Built in Cologne, West Germany, Scorpio performs with an over-the-road discipline befitting its European heritage. Yet it balances that performance with a cabin environment which indulges its occupants in space, comfort and tasteful design. The result is what ROAD & TRACK calls the Best Sedan under $27,500 in the world.*

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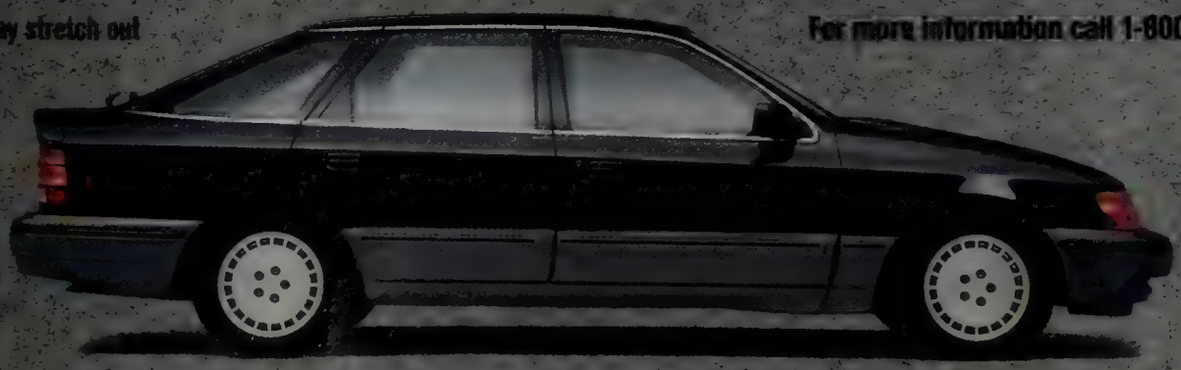


*Selected from cars sold in the U.S.

Buckle up—together we can save lives.

Imported from Germany for select Lincoln-Mercury dealers.

Lincoln-Mercury Division Ford

Faces
Behind the Figures

Edited by Jerry Flint

A gamble that paid off

It's not going to make anybody sit back and say, 'Eureka, they've found the solution,' but it's a good sign," says Paul Tosch, chairman of General Motors' British subsidiary, Vauxhall. Tosch is talking about profit. Vauxhall earned almost $60 million last year, not bad considering that losses over the preceding nine years totaled $623 million.

What accounts for Vauxhall's profit resurgence? For one thing, says Tosch, in contrast to other British carmakers, Vauxhall made a nervy decision to offer no big incentives to help sell its cars in 1987. Such incentives can amount to $1,000 or more for each car sold. "We felt that incentives were eating away at our profit," he says. Result: a 5% dip in unit sales, but a far better profit margin.

Despite last year's dip in unit sales, Vauxhall has come a long way in the British market. Thanks to hot sellers like the Cavalier, Astra and Carlton, which was last year's European car of the year, Vauxhall's share of the British auto market, now over 13%, is almost double what it was at the beginning of the decade.

Tosch, 47, an engineer and a 30-year GM veteran, shipped over from Michigan three years ago to head GM's ailing British truck operations. Last fall he was promoted to run Vauxhall's U.K. operation. Now his job is to sustain and improve Vauxhall's profitability. His task has been made a little easier by the cutting of internal expenses by about 12% through restructuring and layoffs and the modernization of GM's two English assembly plants.—**Maggie Jackson**

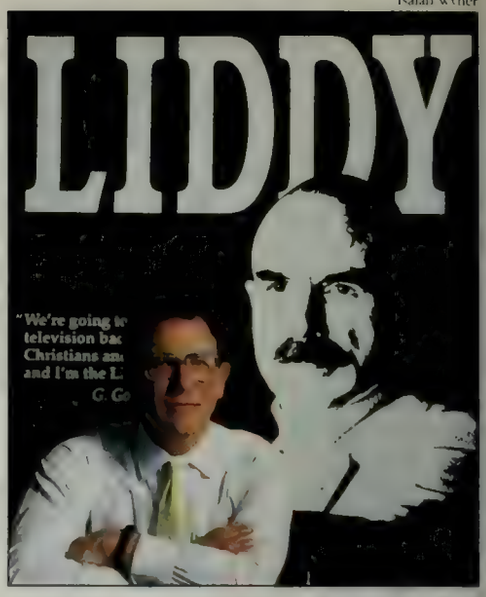
Paul Tosch, chairman of General Motors' British subsidiary, Vauxhall
If not a solution, then certainly a good sign.

Thanks, George

If your idea of a good time is to curl up in front of the tube with a convicted felon, then George Back has just the thing: a nightly hour-long talk show starring G. Gordon Liddy. The syndicated TV show *Liddy*, due to debut in the fall on 65 stations around the country, is Back's try at cashing in on the overnight popularity of TV's *Morton Downey Jr. Show*, which features noisy nightly debates, between liberal activists and their opposites.

Back, head of All American Television, an o-t-c-traded program syndicator, figures the time is right for *Liddy*

Isaac Wyner



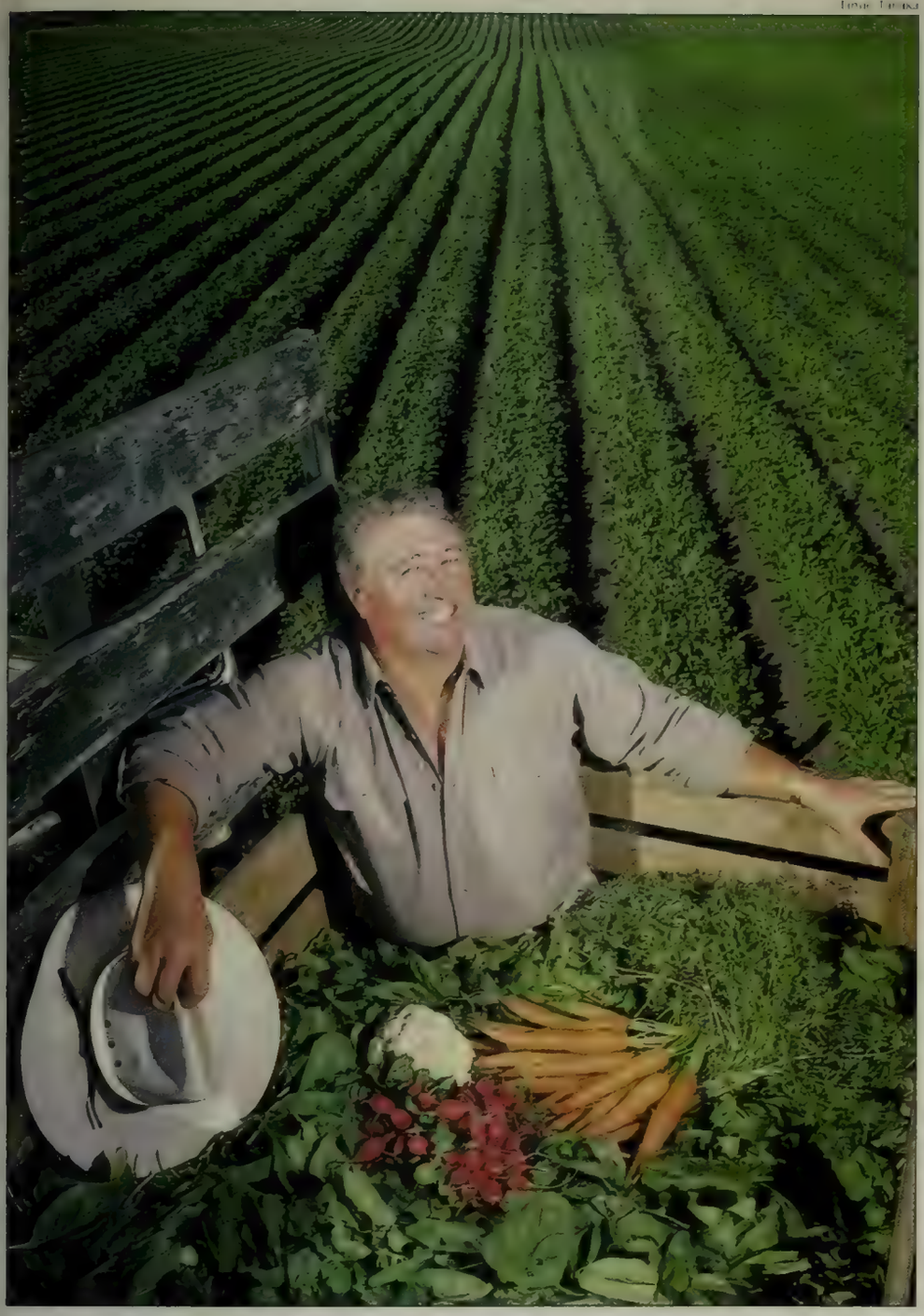
All American Television's George Back
The right time for noisy debates.

Independent stations, long the backbone of the U.S. syndication market, have lately cooled on bidding for the rights to reruns of network hour-long action/adventure shows like *Miami Vice*. A show like *Liddy*, which costs a mere $75,000 for a week's worth of programs, amounts to a cheap alternative to *Miami Vice*, which costs an estimated $1 million-plus per episode. His o-t-c company could certainly use a hit. It went public at $7.50 in December 1985 on the strength of $7.2 million in sales and $375,000 in profits. Today the shares trade around $2.

Back, 48, grew up in Brooklyn, and broke into TV in 1967 as a salesman for ABC Films. In 1970 he hopped over to Group W Productions, and moved on eight years later to become chief of the Hughes Television Network, then a division of Paramount. In 1982 he helped launch All American TV. "For someone who started in the business as a long-haired hippie kid in the late 1960s," he says, "finding myself promoting a show starring Gordon Liddy is beyond even my belief."—**Jeffrey A. Trachtenberg**

What's in a name?

What Frank Perdue did for chickens Peter Gardiner is doing for brussels sprouts. Gardiner has succeeded in giving brand names to fresh vegetables. You think an onion's just an onion? Then try one of Gardiner's Omo onions, or a head of his Mor-Green lettuce or even a bunch of Salute sprouts. There's one big difference, though, between Frank Perdue and Peter Gardiner. Gardiner's brands are marketed, not to individual shoppers, but to the trade—wholesalers and grocery chains such as A&P and



Peter Gardiner, president of Dalgety, Inc.
"The trend is toward big numbers of people being served."

Safeway, as well as restaurant chains such as Long John Silver's and McDonald's.

Gardiner is president of Dalgety, Inc., the $3 billion (sales) U.S. arm of $11 billion British agri-giant Dalgety Plc. A big, bluff Scot who grew up in Edinburgh, Gardiner earned his degrees in brewing and industrial fermentation from Edinburgh's Heriot-Watt University, then went to London to seek his fortune. "In Scotland," Gardiner says, "you can either go into insurance or banking or you go to England."

He expects to push Dalgety's fresh vegetable sales in the U.S. from $37 million in 1987 to an estimated $100 million this year. "For years the food business was like a family, everyone knew everyone," says Gardiner. "But now the trend is toward big, big companies, and big numbers of people being served."

Gardiner's aim is to win at least 5% of America's fast-growing, $7 billion fresh vegetable market. His tactic: Process the lettuce, snow peas, broccoli tips and specialty cabbage so that they stay fresher longer. He seems to be doing it, too, with a process that cleans the vegetables, replaces any moisture they've lost in the cleaning and chops them up fine for packaging. His customers want peeled garlic with a shelf life of up to 70 days and shredded lettuce that lasts for two weeks. Says Gardiner: "Fresh is going to be king."—**Robert T. Grieves**

Part of the club

Remember back in the late 1970s when Persian Gulf producers like Saudi Arabia talked boldly of pushing their way into the petrochemicals business? Collapsing oil prices and the 1981-82 worldwide recession seemingly derailed that effort. But a decade later it now looks as if the strategy is finally beginning to pay off. "We account for 3% to 4% of the world's chemical use, and we hope to double our business in the U.S. in two years," says Saudi-born Abdullah Nojaidi. He's president of Sabic Marketing, the marketing agency for the Saudi development agency, and he's been making the rounds of U.S. buyers lately, talking chemicals.

Sabic Marketing had revenues of $1.5 billion last year, but its chemical plant output is rising, so Nojaidi is hunting for more customers. The U.S. accounts for 8% to 10% of Nojaidi's business. The bulk goes to Far Eastern markets.

The Saudi plants specialize in ethylene and methanol products (such as polyethylene and MTBE, a gasoline additive). "There's a huge shortage of these products, and nobody is building new capacity," says Nojaidi, who graduated with a degree in chemical engineering from the University of Colorado.

"When we started out, many cast doubts on the seriousness of these plants, and whether the products would ever be marketed. Well, now we've got 14 complexes producing more than 8 million tons of product annually."

Does this mean the Arabians could be as disruptive as once feared? Not to hear Nojaidi talk. "We're a major and reliable player on the world market, with 2,000 customers and two dozen types of product," he says. "We are now part of the club."—**J.F.**

Sabic Marketing's Abdullah Nojaidi
The strategy may be paying off.

Disagreeing with the boss can be risky, but failing to try can be fatal for employees. Here, some time-tested rules.

Seven steps to winning a fight

By Richard Greene

In 1975, Henry Ford started his month-by-month premeditated plan to destroy me . . . ," Lee Iacocca wrote in his 1984 autobiography. "I hate Henry for what he did to me. But I hate him even more for the way he did it. There had been no opportunity to sit down and talk to my kids before the whole world knew. I'll never forgive him for that."

Few businessmen have as widely publicized a battle with their boss as did Lee Iacocca with Henry Ford. Fewer still have the opportunity to get even in a bestselling book.

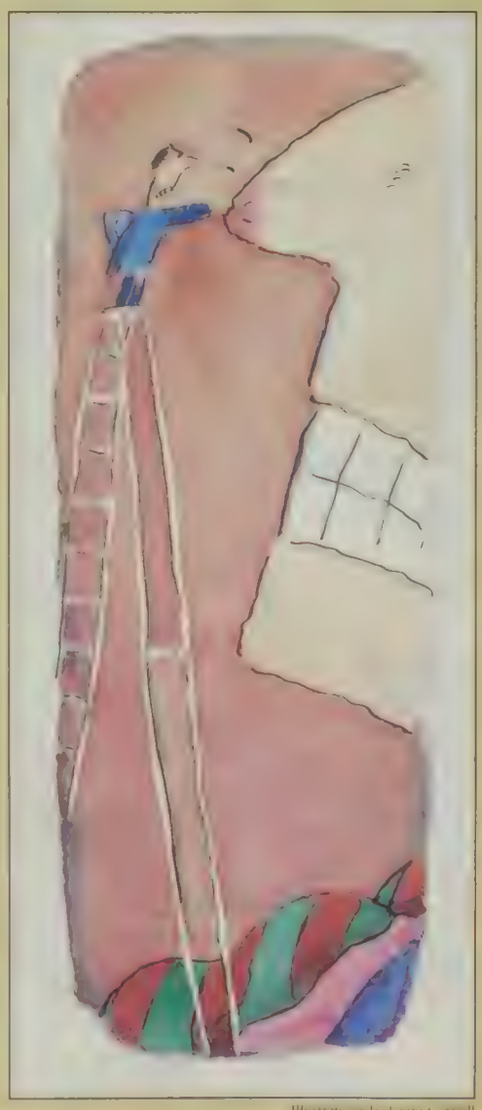
But anyone who has ever held a job in business has assuredly worked at one time or another for a boss with whom he or she had a strongly felt disagreement. The success or failure of such conflicts is among the most critical elements in the career of a successful executive. But the question for employees is how to go about dealing with the conflicts that inevitably arise.

"One of the worst assumptions you can make is thinking that fighting with the boss is always bad," says Dr. Robert Letton, president of a St. Louis firm that advises Forbes 500 companies on employer-employee relations. "Avoiding disagreements can be helpful in the short term, but over the years it's insidious. The employee loses sleep and hurts his self-image, and the employer is deprived of information that might help him do his own job better."

Here, then, are seven time-tested rules to remember when it's time to lock horns with the boss:

1. Timing is key

"Before a confrontation, check with the boss' secretary to determine his mood," says Patricia Cook, a partner at executive search firm Ward Howell International. "If he ate nails for breakfast, it's not a good idea to ask him for something. What happened the hour before you arrived has an enormous amount to do with his attitude. I always make it a practice to get to know the boss' secretary for just that reason."



Illustrations by Laura Cornell

Even without the boss' secretary, there are certain clear keys to timing: Don't approach the boss when he's on deadline; don't go in right before lunch, when he's apt to be distracted and rushed; don't go in immediately before or after he's taken a vacation.

2. Be direct

Spending an hour trying to soften up a busy boss may just make him angry and impatient. In that spirit, Richard Miller, president of Corroon & Black Corp., an international insurance brokerage firm, recalls: "One senior executive with a great big deep voice came in telling me how good our business was going. We spent about an hour talking about that. Then he went on to say that he'd found this other business opportunity for us that he thought was better than the brokerage business—and that if I didn't authorize him to start up the new business for us, he'd quit.

"I pointed to the closet and said, 'There's a two-by-four in that closet, and I'm very inclined to use it on your head.' Instead, I let him quit."

3. Don't go in angry

"If you have a problem with your boss, you need to make sure that when you discuss it you're not mad," according to Dr. Robert Smith, a Virginia psychologist who counsels people on how to get promoted. "That will just tend to make him or her mad. Try to work down your stress level first."

A corollary here is not to let a particular concern open the floodgates for all your accumulated resentment and frustration. Says Wesley Cantrell, president of Harris/3M Document Products, a $650 million joint venture between the two firms to sell copying machines, "If an employee sounds negative about the company, it gives you an idea that maybe it's kind of hopeless trying to please him. You get the idea that maybe he should go find another company."

4. Clarify the issues

Terrible disputes can result when neither the employer nor his subordinate knows what is on the other's mind. "Sometimes the fight will go away when the issues are made clear," says Lilyan Wilder, a speech consultant who has worked with executives at Mobil; Goldman, Sachs; IBM; Nabisco; and many other large firms. "The employee has to get his point across, so that the boss understands it clearly and succinctly."

Says Claire Tallarico, who works for Stanley E. Grayson, head of the department of finance for New York City, "I rarely argue with my boss. But on the occasion that he says no to something I think is important enough to pursue, I put my ideas down on paper, and ask him to look at that. It helps focus the issue, and it's worked more than once."

5. If you can't win . . . give up

"If you've ever studied much about revolutions," says management consultant Robert Kelley, the author of two books on employer-employee relations, "you know that it's risky to start a fight you can't win." After all, the boss holds all the cards, and pushing a dispute too far may possibly have repercussions far beyond the subject at hand.

Ward Howell's Patricia Cook badly wanted a raise when she was just starting out in her career at ABT Associates, a Massachusetts think tank. Her immediate boss told her she could take up the matter with the big boss, Clark Abt. "It was clear he didn't want to give me a raise, but I kept at it," she says. "It turned into this terrible argument, in which we were comparing my salary to other people's salaries and my views of their worth compared to mine. There were words exchanged that I could never forget. I always had this bad taste in my mouth. Soon after that, I left the company."

6. No problem without a solution

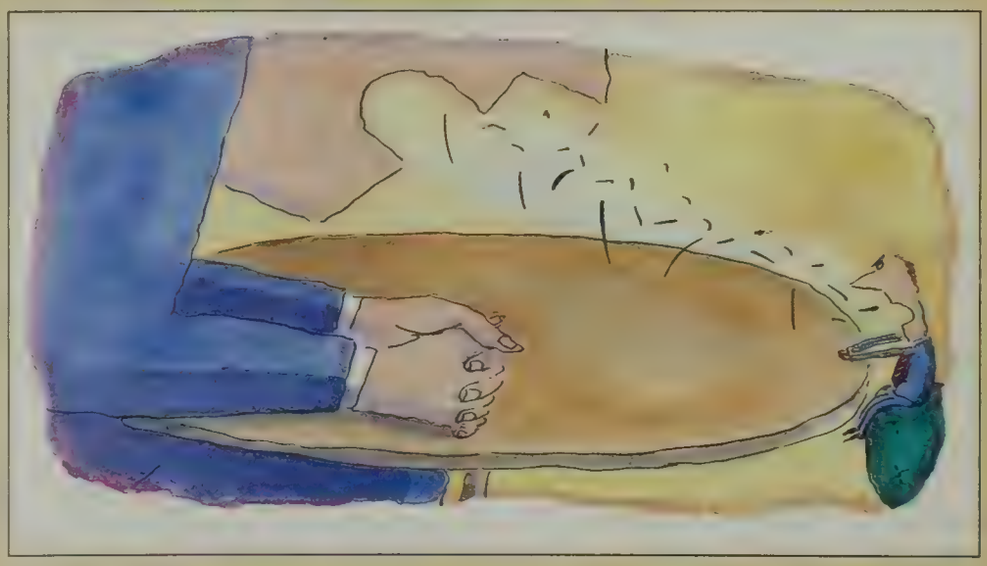
"Your boss has enough on his mind without you adding more," says Dr. Norman Sussman, a clinical associate professor of psychiatry at New York University Medical Center. "In certain circumstances you may not be able to propose a solution when you go into the boss' office, but at least you should try to do the legwork, to find out details, to see what's possible in terms of resolving the issue you bring up. Then you can tell the boss what's on your mind and at least suggest how to deal with it."

Sussman warns that those people who frequently take problems without solutions to their bosses may soon find that they can't get past the secretary. "The boss may not be able to put his finger on it, but he knows that whenever Mr. So and So comes in, he doesn't feel so good. So after a while, Mr. So and So doesn't get to go in anymore."

7. Keep the boss' goals in mind

"If you're going to deal effectively with a boss, it's important to consider his or her own goals and pressures, and what's important to him at the time," says Lefton. "If you can do that, you put yourself in the position of being a partner to the boss; then he or she will be naturally more inclined to work with you to achieve your goals."

Consultant Kelley tells the story of a software programmer and his boss at a $300 million California computer company, who were at an impasse over the merits of a particular piece of software. "I suggested that they switch roles and argue it out," says Kelley, who was called in to help them come to an agreement. "They actually switched chairs and the subordinate sat behind the boss' desk. At first it was difficult for them. But after about five minutes, when they realized how silly they each appeared to the other, they started to laugh, and then quickly were able to come to a solution." ■



HE MAY NOT BE COVERED PROPERLY.

Suppose this statue had to be shipped to another location.

What would happen if it was damaged in transit?

Chances are the insured would discover the statue was missing something very important. Namely, thousands of dollars in coverage.

Because while certain policies may protect your property while it's on your premises, after it leaves, it could be stripped of virtually all protection.

With property and casualty needs becoming increasingly complex, it's not surprising that businesses are often unaware of gaps in their insurance programs. Last year, American businesses let millions of dollars slip through those gaps. Which is why at CIGNA, we're constantly developing ways to reduce them.

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The Forbes Foreign Rankings

The 100 Cheapest Foreign Stocks: Page 204

The 500 Largest Foreign Companies: Page 208

The 100 Largest Foreign Investments in the U.S.: Page 240

The 100 Largest U.S. Multinationals: Page 248

100 U.S.-Traded Foreign Stocks: Page 252

Index to the Foreign 500: Page 232

THE 100 CHEAPEST FOREIGN STOCKS

For investors who believe the U.S. stock markets hold no monopoly on inefficiency, we present Forbes' third annual listing of the 100 Cheapest Foreign Stocks. We have again compiled our list with the help of Mark Sladkus and his staff at Morgan Stanley Capital International Perspective. MSCIP currently follows 1,720 foreign and 480 U.S. companies. These 2,200 stocks are traded on 20 exchanges and have a market value of $6.3 trillion—about 80% of the aggregate market capitalization of those exchanges. (The market capitalization of all U.S. stocks as measured by the Wilshire index is $2.7 trillion.)

To make this year's cheap stock list, a company's latest 12-month P/E had to be no more than 75% of the P/E for the national index. And only shares selling at less than 1.5 times the national average price-to-book ratio were selected. We eliminated stocks with market values under $100 million. All figures have been converted to U.S. dollars at exchange rates on May 31. (Unless otherwise noted, the earnings and sales figures in this table come from Morgan Stanley Capital International. Because of differences in accounting standards, the same companies listed elsewhere in this issue may show different values. This is one of the challenges of international investing.) We have added earnings estimates for most companies, courtesy of New York brokerage Lynch, Jones & Ryan and its Institutional Brokers Estimate System international database.

The result is a smorgasbord ranging from Telefónica, Spain's largest phone company, to Korn-Og Foderstofkomp, a wholesale trade company based in Denmark. Both sell below book value and are expected to show higher earnings. The cheapest stock, with a P/E of 2, is Chase Corp., a New Zealand property developer that was clobbered in the October crash and still sells at 30% of book value and yields 15.1%. Chase has reported increased earnings and paid higher dividends for the last four years.

How did our list last year of cheap foreign stocks do? Not too badly, thank you. The biggest loser, down 51% in dollar terms, was Harmony, a South African gold and uranium miner. It appears again on the list below. The biggest winner, up 138%, was Hattori Seiko, Japan's watchmaker, now too expensive to make this year's list.

A portfolio holding each of last year's cheapest stocks was up 20% in dollar terms. The MSCIP World Index of 1,400 stocks dropped 2.6%, and the Dow industrials fell 11.4%. Maybe we're on to something here.

Company/industry	Country	Recent price	Earnings per share 1987	Earnings per share 1988 est†	P/E	Yield	Price/book	Sales (mil)	Market value (mil)
Chase/real estate	New Zealand	$0.58	$0.29	$0.21	2.0	15.1%	0.3	NA	$175
Buffelsfontein/gold	South Africa	18.18	11.38	1.86	2.0	15.4	0.4	$258	200
EquitiCorp/multicompany	New Zealand	0.53	0.21	0.18	2.2	10.4	0.6	NA	198
Christiania Kreditkassen/banking	Norway	17.13	3.72	8.24	2.3	—	0.7	NA	225
Free State Cons (Steyn) gold	South Africa	9.20	3.36	1.03	2.9	13.3	0.6	1,292	1,069
Credito Fondiario/banking	Italy	1.68	0.55	NA	3.1	8.4	0.4	NA	126
Carter Holt Harvey multicompany	New Zealand	0.99	0.21	0.19	3.2	8.5	0.6	917	325
Bergen Bank/banking	Norway	19.69	5.02	7.55	3.3	11.4	0.6	NA	251
Libanon/gold	South Africa	2.76	0.74	0.27	3.8	13.7	0.8	110	110
IFI Priv/multicompany	Italy	11.15	2.86	2.57	3.9	1.5	0.8	NA	1,377
Aker Norcem/building materials	Norway	6.88	1.75	1.79	3.9	5.6	1.3	2,084	302
David Jones/retailing	Australia	7.35	1.66	0.94	4.4	3.9	1.0	837	803
PWA/airline	Canada	15.17	2.04	2.14	4.5	—	0.9	1,514	279
General Mining Union/gold	South Africa	16.57	3.54	NA	4.7	6.7	1.0	NA	1,370
Blyvooruitzicht/gold	South Africa	5.04	1.26	0.54	4.7	14.6	1.0	164	121
Harmony/gold	South Africa	7.13	3.22	0.70	4.8	13.5	0.5	386	192
Banque Natl Belgique/banking	Belgium	968.21	202.05	60.82	4.8	7.3	0.8	NA	387
Interbanca Priv/banking	Italy	6.95	1.67e	1.78	4.9	9.0	0.5	NA	111
Credito Italiano Ord/banking	Italy	0.80	0.12e	0.15	5.0	7.4	0.6	NA	1,274
Randfontein Estates/gold	South Africa	83.52	24.61	4.61	5.1	7.0	0.8	342	511

†Estimate provided by Institutional Brokers Estimate System (IBES), a division of Lynch, Jones & Ryan. ‡Source: Forbes. e: Estimate provided by IBES. NA: Not available.

Source: Morgan Stanley Capital International Perspective

Company/industry	Country	Recent price	Earnings per share 1987	1988 est†	P/E	Yield	Price/ book	Sales (mil)	Market value (mil)
Pagurian A/financial services	Canada	$7.38	$1.46	$1.58	5.1	6.6%	1.2	NA	$372
Banco Lariano/banking	Italy	1.72	0.34	NA	5.1	9.1	0.8	NA	431
Gold Mines of Kalgoorlie/gold	Australia	1.17	0.23	0.06	5.3	19.3	0.7	NA	196
Saga Petroleum/energy	Norway	14.57	2.74	1.39	5.3	—	1.4	$140	388
Bond Corp/multicompany	Australia	1.67	0.20	0.28	5.4	5.3	1.3	2,002	707
Banca Commerciale/banking	Italy	1.53	NA	NA	5.7	10.8	0.5	NA	320
Bank of Nova Scotia/banking	Canada	10.11	1.76	2.18	5.7	6.1	1.0	4,781‡	1,828
KLM/airline	Netherlands	17.64	3.06	3.08	5.7	4.7	0.7	2,780	931
Breda (Finanziara E)/aerospace	Italy	3.09	0.58e	0.65	5.8	5.7	1.0	793§	145
Crédit Lyonnais/banking	France	87.07	14.59	15.57	6.0	5.6	0.8	15,203‡	515
National Bank of Canada/banking	Canada	7.48	1.50	1.69	6.0	6.9	0.7	NA	811
Ned Middenstandsbank/banking	Netherlands	76.91	12.56	11.15	6.1	6.1	0.6	NA	700
Volvo B Fria/automobile	Sweden	57.05	9.67	NA	6.3	3.1	1.3	15,476	1,358
Adelaide Steamship/multicompany	Australia	5.47	0.91	0.78	6.3	5.3	1.2	380	242
De Beers/misc materials	South Africa	11.28	1.76	NA	6.4	4.4	1.1	783	4,286
Orange Free State/gold	South Africa	20.71	3.60	NA	6.5	15.5	0.6	NA	466
Locafrance/financial services	France	67.45	8.34	9.31	6.5	8.0	0.8	NA	146
Internatio-Muller/trading company	Netherlands	26.43	4.03	4.50	6.6	5.5	0.6	1,262	125
Hollandsche Beton/construction	Netherlands	62.48	9.48	9.72	6.6	6.1	0.5	1,458	172
Royal Bank of Canada/banking	Canada	23.26	3.26	3.78	6.7	7.2	1.0	7,100‡	3,012
Volkswagen/automobile	Germany	145.54	20.02‡	20.17	6.8	6.2	0.8	30,397§	4,348
CIBA-GEIGY/chemicals	Switzerland	972.56	142.46	152.47	6.8	2.7	0.5	10,955	3,416
Bridge Oil/energy	Australia	0.76	0.11	0.10	6.8	—	1.2	43	119
Berliner Kraft & Licht/utility	Germany	73.87	6.95	NA	6.9	7.3	1.0	1,400	827
Suez (Cie Financière)/banking	France	44.22	5.47	5.32	6.9	3.5	NA	9,064‡	2,810
SIP Ord/telecommunications	Italy	1.58	0.17	0.19	7.0	6.9	0.3	9,497	2,750
Saab-Scania A Fria/machinery	Sweden	35.80	5.07	7.15	7.1	3.2	1.5	6,927	540
Sovac-Credit Mobilier/finl services	France	123.72	17.85e	18.70	7.1	5.2	1.0	NA	495
STET Ord/telecommunications	Italy	2.22	0.27	0.31	7.1	6.3	0.6	11,260§	2,793
Rolls-Royce/aerospace	UK	2.21	0.31	0.35	7.2	5.9	1.2	3,792	1,776
News Corp/broadcasting & pub	Australia	9.25	1.01	1.15	7.3	0.7	0.9	4,277	2,495
Saint-Gobain/misc materials	France	79.17	10.75	NA	7.3	3.4	1.2	13,231	3,496
Société Natl Elf Aquitaine/energy	France	53.17	7.22	6.50	7.4	7.3	0.6	21,851	5,194
Industrial Equity/multicompany	Australia	1.50	0.25	0.18	7.4	5.4	1.1	1,270	1,184
Meta (Iniziativa)/multicompany	Italy	2.58	0.35	NA	7.4	8.2	0.5	2,420	1,281
Dominion Textile/textiles, apparel	Canada	13.45	1.20	1.76	7.5	3.6	0.9	844	301
T&N/industrial equipment	UK	3.15	0.37	0.48	7.6	6.8	1.1	1,770	812
J Rothschild Holdings/multicompany	UK	2.91	0.37	0.40	7.6	5.2	0.9	NA	949
Rhône Poulenc/trading	France	64.36	8.40	9.70	7.7	5.9	1.2	9,663	3,112
Elders IXL/trading company	Australia	2.51	0.30	0.32	7.7	6.3	1.1	8,489	3,519

†Estimate provided by Institutional Brokers Estimate System (IBES), a division of Lynch, Jones & Ryan. ‡Source: FORBES. §1986 result. e: Estimate provided by IBES. NA: Not available.

Source: Morgan Stanley Capital International Perspective

The 100 cheapest foreign stocks*

Company/industry	Country	Recent price	Earnings per share 1987	Earnings per share 1988 est†	P/E	Yield	Price/book	Sales (mil)	Market value (mil)
Hang Lung Development/real estate	Hong Kong	$0.64	$0.07	$0.08	7.7	5.4%	1.3	NA	$732
Dyno/chemicals	Norway	11.05	1.42	1.80	7.8	4.6	1.2	$698	206
Saatchi & Saatchi/advertising	UK	6.76	0.82	0.89	7.8	5.7	9.7	7,282	1,054
ANZ Group Holdings/banking	Australia	3.94	0.44	0.53	7.8	4.8	1.1	6,519§	2,761
Lucas Inds/industrial equipment	UK	9.53	1.14	1.26	7.8	5.1	1.3	3,077	1,715
Allied Irish Bank/banking	UK	4.27	0.48	0.50	7.9	6.0	1.1	NA	912
Pilkington/misc materials	UK	3.57	0.45	0.48	8.0	5.3	1.3	3,873	2,687
Beazer/construction	UK	3.07	0.31	0.42	8.0	4.7	1.2	1,902	852
Eridania Ord/food processing	Italy	2.54	0.59	0.83	8.1	5.2	1.0	2,423§	430
Domtar/paper & forest prods	Canada	10.72	1.40	1.54	8.1	3.8	1.1	2,078	923
Bank of Scotland/banking	UK	9.85	1.06	1.23	8.2	4.7	1.0	NA	1,227
Italmobiliare/multicompany	Italy	71.99	8.65	8.72	8.3	0.6	0.9	NA	490
Royal Bank of Scotland/banking	UK	6.17	0.83	1.14	8.4	5.4	0.9	2,896‡	1,769
National Australia Bank/banking	Australia	4.99	0.44	0.50	8.4	4.4	1.3	4,109‡	2,961
Den Danske Bank Af 1871/banking	Denmark	52.82	6.10	6.46	8.6	4.6	0.7	NA	963
Bekaert/industrial equipment	Belgium	270.91	34.14	34.55	8.6	4.5	1.3	1,150	608
Union Bank C Free/banking	Finland	8.52	0.99	0.98	8.6	4.0	1.2	NA	2,412
Andelsbanken/banking	Denmark	51.61	5.95	5.03	8.7	4.4	0.8	NA	342
Banque Bruxelles Lambert/banking	Belgium	73.26	8.38	9.84	8.7	8.2	1.1	3,903§	879
Rio Algom/misc materials	Canada	16.58	1.72	2.00	8.7	3.2	1.2	1,240	725
Canadian Imperial Bank/banking	Canada	17.09	1.96	2.75	8.7	5.5	0.9	5,994‡	2,754
Blue Circle Inds/building materials	UK	7.64	0.87	0.96	8.7	4.9	1.2	1,971	1,985
Power Corp of Canada/multicompany	Canada	10.11	1.12	1.29	8.7	4.8	1.0	NA	1,159
Coal & Allied Inds/energy	Australia	3.54	0.40	0.15	8.8	4.5	0.8	391	112
Novo Industri/health care	Denmark	28.36	2.86	2.99	9.2	2.2	0.9	749	723
Enso-Gutzeit A Free/paper & forest prods	Finland	9.70	1.23	1.60	9.5	2.5	1.2	1,751§	1,103
Kansallis-Osake/banking	Finland	13.38	1.39	1.52	9.6	4.4	1.1	NA	1,940
Danske Sukkerfabrikker/food proc	Denmark	56.25	5.49	4.22	10.3	3.4	1.0	1,054	381
Union Electrica-Fenosa/utility	Spain	0.81	0.06e	0.07	10.5	7.8	0.4	1,553§	1,014
United Paper Ord/paper & forest prods	Finland	39.78	3.73	4.67	10.7	1.5	1.2	1,280	1,144
Baltica Holding/insurance	Denmark	76.23	8.15	7.35	11.0	1.4	0.7	NA	485
Korn-Og Foderstofkomp/trading company	Denmark	221.05	19.21	22.48	11.5	1.7	0.9	928	179
Telefonica/telecommunications	Spain	1.55	0.11	0.15	12.1	6.2	0.7	4,748	6,456
Iberduero/utility	Spain	1.17	0.10	0.10	12.8	6.4	0.5	1,790§	2,498
United Overseas Bank/banking	Singapore	2.26	0.16	0.17	13.9	2.3	1.3	NA	956
Fuji Heavy Industries/automobile	Japan	5.34	0.34	0.13	15.9	1.2	1.5	5,822	2,170
Cycle & Carriage/automobile	Singapore	1.24	0.06	0.07	17.6	2.4	1.1	113	155
Hokuriku Electric Power/utility	Japan	17.99	0.83	0.66	21.6	2.2	0.8	2,831	3,615
Hitachi Maxell/recreation	Japan	17.19	0.78	0.64	21.9	0.8	1.5	1,415	1,700
Nissan Motor/automobile	Japan	7.32	0.07	0.16	32.6	1.5	1.5	34,170	16,836

*Estimate provided by Institutional Brokers Estimate System (IBES), a division of Lynch, Jones & Ryan ‡Source: Forbes §1986 result e: Estimate provided by IBES NA: Not available

Source: Morgan Stanley Capital International Perspective

A municipal financing story a five-year-old could understand.

Or a two-year-old. Or a child of any age. As long as they don't have to stop running and climbing and scraping their knees in their parks and playgrounds. Because of something as incomprehensible to a child as liability insurance. For a variety of reasons, among them an increase in lawsuits, municipal liability insurance has become a serious problem in California. Some cities face increases of up to 9000%. Others can't buy the insurance at any price.

Up until a year ago, it looked very much as if the playgrounds in a number of California communities would be a casualty of this insurance crisis. The problem was so serious, they were threatened to be closed.

But with Drexel Burnham lead managing three bond issues that provide self-funding liability programs, 34 counties, 23 cities and 22 school districts were able to get the insurance they needed. All three issues were sold as non-rated pooled certificates of participation. And don't think this was a temporary measure. All the participants were provided with coverage for up to twenty years. Right into the next generation of kids.

This was a transaction that worked out well for the municipal leaders, and the investors, of course. But really, it was the children who came out best in the deal. People who know how profitable municipal financing can be without even knowing how to pronounce it.

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The 500 LARGEST FOREIGN COMPANIES

The world of international business continued expanding last year. The total revenues of the international Forbes 500 rose $890 billion, or 24%, to a record $4.5 trillion.

Yes, the weak U.S. dollar accounted for a substantial part of the handsome gain, but by no means all of it. Around most of the industrial West, business was good. Politics was, by and large, stable. Managers worked at improving quality and reducing cost. Although revenues climbed, the aggregate number of employees actually declined, from 24.1 million in 1986 to 24 million last year. Several large employers fell off the list and were replaced by firms with fewer workers and more revenues.

The Japanese muscled their way onto this year's list in a major way. In all, 14 of the 25 largest companies were Japanese, including the top 5. This reflects the strong yen. But it also reflects these companies' worldwide scope, and the fact that many of their biggest operations are concentrated in the rapidly growing Far East.

Mitsubishi Corp., the giant Japanese trading company, with total sales of $96.6 billion, is the top-ranked foreign firm this year. It posted a 22% increase in dollar-denominated revenue. Even when measured in yen, however, Mitsubishi's sales rose 5%, an impressive showing. (For exchange rates FORBES uses a 12-month average rate as of a company's fiscal year-end date.)

Ten Japanese companies climbed into the ranks of the world's largest firms, helping to displace U.K., French, Canadian and German companies in the process. Including the net gain of these ten firms, sales of the 154 Japanese companies among the International Forbes 500 rose $431 billion, or 31%, to $1.81 trillion.

The 25 largest companies outside the U.S.

Rank	Company/country	Industry	Revenue (mil)
1	**Mitsubishi Corp**/Japan	trading	$96,606
2	**C Itoh & Co Ltd**/Japan	trading	92,356
3	**Mitsui & Co Ltd**/Japan	trading	88,640
4	**Marubeni Corp**/Japan	trading	82,871
5	**Sumitomo Corp**/Japan	trading	81,709
6	**Royal Dutch/Shell Group**/Netherlands/UK	oil and gas	78,306
7	**Nissho Iwai Corp**/Japan	trading	75,441
8	**British Petroleum Co Plc**/UK	oil and gas	45,198
9	**Toyota Motor Corp**/Japan	automotive	43,637
10	**IRI Group**/Italy	multicompany	41,287
11	**Nippon Telegraph & Telephone Corp**/Japan	communications	40,926
12	**Nippon Life Insurance Co**/Japan	insurance	37,704
13	**Daimler-Benz Group**/Germany	automotive	37,541
14	**Hitachi Ltd**/Japan	multicompany	35,961
15	**Matsushita Electric Industrial Co**/Japan	consumer electronics	34,833
16	**Nissan Motor Co Ltd**/Japan	automotive	30,675
17	**Volkswagen Group**/Germany	automotive	30,397
18	**Fiat Group**/Italy	automotive	29,655
19	**Deutsche Bundespost**/Germany	communications	28,959
20	**Toyo Menka Kaisha Ltd**/Japan	trading	27,631
21	**Siemens Group**/Germany	electrical equipment	27,461
22	**Unilever**/Netherlands/UK	food processing	27,124
23	**PTT-Postes et Telecommunications**/France	communications	26,037
24	**Philips Group**/Netherlands	electrical equipment	26,023
25	**Toshiba Corp**/Japan	multicompany	25,822

Continuing weakness in oil prices explains some of the shifting positions in this year's list. Sixth-ranked Royal Dutch/Shell Group, with revenues of $78.3 billion and the biggest nontrading firm, was fifth-ranked last year. McDermott International sold assets and discontinued operations, and reported revenues down nearly 30%. Kuwait Petroleum was hurt by both limp oil prices and the Persian Gulf conflict. It slipped in rank from 50 to 113.

When you look at a list like this, the fact that the U.S. economy is shrinking in relation to other economies comes into particularly sharp focus. Compare, for example, the 500 largest U.S. companies with the 500 largest foreign companies. The combined revenues of the foreign 500 are nearly 61% higher than the $2.8 trillion for the Forbes Sales 500 *(Apr. 25, 1988)*.

Or look at individual companies. A list of the world's largest companies would show General Motors, with revenues of $101.8 billion, ahead of Mitsubishi Corp. But $76.4 billion (revenues) Exxon, which places second among U.S. companies, would place eighth on a combined world list. The only other U.S. company to qualify within the top ten would be Ford Motor, in tenth place.

Our table below includes market value. Here again the Japanese dazzle. They have to. Not only is their cur-

rency strong, but their stock market sells at the highest price/earnings multiple in the world: 52.7 times.

So it is that Nippon Telegraph & Telephone, with a market capitalization of $277.6 billion (which includes Japanese government-held shares), has by far the world's largest market value. At year-end 1987 stock prices, IBM's capitalization is only $69 billion by comparison. Among foreign companies, Toyota has the 11th-largest market capitalization, $39.7 billion. Its net income of $1.7 billion on $43.6 billion in sales gives Toyota a year-end price/earnings ratio of 23.3. By contrast, Ford Motor's revenues are $73.1 billion, and its market capitalization is only $18.6 billion, 53% lower than Toyota's. Yet Ford, which had a P/E of 4, earned $4.6 billion in 1987, or 170% more than Toyota. Safe conclusion: Either Japanese stocks are overpriced, or American stocks are underpriced.

Other Asian nations are creeping up. The Koreans are leaping up. Korea's rapidly growing Hyundai Motor, with revenues of almost $4 billion, joins the foreign 500 for the first time with a rank of 382.

How are the Europeans doing? Not too badly. German retailer Asko Deutsche Kaufhaus made the list for the first time this year (at number 283), with $5.2 billion in revenues. Another newcomer, Hillsdown Holdings Plc., posted a 78% gain in revenues in 1987 by acquiring more than 50 new businesses. Dee Corp. Plc., a diversified U.K. supermarket chain, shot up in rank with its mid-1986 purchases of Herman's Sporting Goods from W.R. Grace and Fine Fare, a subsidiary of Associated British Foods.

In European countries such as France, Italy and Germany, many large enterprises are either government-owned or cooperatives. Governments have been waking up to the fact that they cannot and should not compete in the private sector. Other companys are following British Telecommunications, British Airways and even America's Conrail with public offerings.

This survey lists 150 businesses that are presently not publicly traded. The largest is IRI Group, the giant state-owned Italian multicompany that is in banking, steel and telecommunications. It has revenues of $41.3 billion and keeps 422,000 people gainfully employed.

All told, 30 countries are represented on the following list. Japan leads with 154 entries, followed by the U.K. with 68 and West Germany with 61. To facilitate comparisons, all firms are grouped into one of 34 industry groups and listed in descending order by total revenues. Beginning on page 232 is an alphabetical index of all 500 companies. It shows where each one can be found in the main table.

Rank 1987	Rank 1986	Company	Country	Fiscal year-end	Revenue[1] (mil)	Net income (mil)	Assets (mil)	Market value of common[2] (mil)	Employees (thou)
		AEROSPACE AND DEFENSE							
149	128	**General Electric Co Plc**	UK	Mar	$7,830	$649	$8,866	$7,990	159.6
191	244	**British Aerospace Plc**	UK	Dec	6,679	–180	7,958	1,537	86.8
276	222	**Aérospatiale Group**	France	Dec	5,218	23	9,546	none[3]	38.0
450	466	**MBB-Messerschmitt-Bolkow-Blohm GmbH**	Germany	Dec	3,392	3P	3,315[4]	none[3]	38.5
452	461	**Rolls-Royce Plc**	UK	Dec	3,375	220	2,890	1,785	42.0
		AUTOMOTIVE							
9	10	**Toyota Motor Corp**	Japan	June	43,637	1,704	33,135	39,720	84.2
13	13	**Daimler-Benz Group**	Germany	Dec	37,541	994	29,401	15,547	326.3
16	26	**Nissan Motor Co Ltd**	Japan	Mar	30,675	466	33,283	13,113	108.7
17	17	**Volkswagen Group**	Germany	Dec	30,397	333	27,860	3,414	260.5
18	30	**Fiat Group**	Italy	Dec	29,655	1,831	40,406	9,864	270.6
26	33	**Renault Group**	France	Dec	24,541	614	18,981	none[3]	188.9
33	36	**Honda Motor Co Ltd**	Japan	Mar	22,472	725	14,233	9,824	58.3
43	43	**Peugeot Groupe SA**	France	Dec	19,659	819	14,430	4,205	160.6
66	64	**Volvo Group[5]**	Sweden	Dec	14,592	731	13,631	3,537	72.5
71	83	**Robert Bosch Group**	Germany	Dec	14,112	459	11,496	none[3]	161.3
92	85	**Mazda Motor Corp**	Japan	Oct	11,295	30	7,877	3,065	28.3[6]
104	109	**BMW-Bayerische Motoren Werke**	Germany	Dec	10,827	209[6]	6,528[6]	4,306	62.8
151	143	**Michelin Group**	France	Dec	7,809	405	10,474	2,401	117.0
170	165	**Nippondenso Co Ltd**	Japan	Dec	7,240	218	7,248	8,714	45.6
200	213	**Saab-Scania Group**	Sweden	Dec	6,530	282[7]	6,317	1,743	49.6

■ Not ranked last year. [1]Revenue figures are for group or consolidated operations and exclude taxes and duties. [2]As of Dec. 31, 1987. [3]Not publicly traded as of Dec. 31, 1987. [4]Figures are latest available. [5]Figures based on U.S. GAAP. [6]Not fully consolidated. [7]Profit before appropriations adjusted to a 50% tax rate to more closely conform to U.S. accounting. [8]Combined market value. [9]Based on current cost accounting. NA: Not available or not applicable. E: Forbes estimate. P: Preliminary.

General note: Revenue and net income are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. For companies with January, February or March fiscal year-ends, 1987 figures are used when more current data are not available.

The 500 largest foreign companies

Rank 1987	Rank 1986	Company	Country	Fiscal year-end	Revenue[1] (mil)	Net income (mil)	Assets (mil)	Market value of common[2] (mil)	Employees (thou)
		AUTOMOTIVE							
222	177	**Isuzu Motors Ltd[6]**	Japan	Oct	$6,077	$63	$4,876	$2,735	13.8
231	212	**Asahi Glass Co Ltd**	Japan	Dec	5,963	241	7,549	15,610	9.6[6]
249	232	**Bridgestone Corp**	Japan	Dec	5,672	249	6,935	6,066	34.0
252	231	**Pirelli Group**	Switzerland/Italy	Dec	5,615	175	6,045	2,169[8]	66.3
267	315	**Suzuki Motor Co Ltd**	Japan	Mar	5,439	60	3,389	1,453	13.4[6]
291	341	**Rover Group Plc**	UK	Dec	5,010	–44	3,266	7,651	46.4
328	336	**Fuji Heavy Industries Ltd**	Japan	Mar	4,553	100	3,786	1,589	14.5[6]
363	393	**Kubota Ltd**	Japan	Apr	4,114	79	5,057	6,056	16.0[6]
371	417	**Daihatsu Motor Co Ltd**	Japan	June	4,048	27	2,704	1,387	18.8
382	■	**Hyundai Motor Co**	Korea	Dec	3,972	113	2,888	750	29.8
487	402	**GKN Plc**	UK	Dec	3,115	101	2,830	1,283	39.4
499	549	**Aisin Seiki Co Ltd**	Japan	Mar	3,050	68	2,166	2,229	9.5[6]
		BANKING							
45	164	**Banco do Brasil**	Brazil	Dec	18,611	1,089	75,708	476	128.5
51	247	**BRADESCO Group**	Brazil	Dec	16,029	389[9]	13,630[9]	956	147.9
53	56	**Banque Nationale de Paris Group**	France	Dec	15,823	472	182,675	none[3]	58.6
59	63	**Société Générale Group**	France	Dec	15,244	395	153,022	none[3]	44.0
60	65	**Crédit Lyonnais Group**	France	Dec	15,203	370	168,344	none[3]	58.2
61	61	**Barclays Plc**	UK	Dec	15,158	303	164,292	6,236	113.0
65	55	**National Westminster Bank Plc**	UK	Dec	14,611	724	162,871	8,119	102.0
73	80	**Crédit Agricole**	France	Dec	13,959[6]	359	214,382	none[3]	73.9
77	88	**Dai-Ichi Kangyo Bank Ltd**	Japan	Mar	13,151	592	289,622	57,817	19.3[6]
80	95	**Sumitomo Bank Ltd**	Japan	Mar	13,022	332	271,293	60,955	16.6[6]
86	96	**Fuji Bank Ltd**	Japan	Mar	12,262	517	264,242	57,972	14.8[6]
89	94	**Deutsche Bank Group**	Germany	Dec	11,494	366	169,675	8,676	54.6
90	108	**Mitsubishi Bank Ltd**	Japan	Mar	11,431	600	246,426	50,708	14.1[6]
99	97	**Paribas Group**	France	Dec	11,014	287	122,275	3,278	27.5
100	111	**Sanwa Bank Ltd**	Japan	Mar	10,992	524	239,171	46,304	15.0[6]
106	117	**Industrial Bank of Japan Ltd**	Japan	Mar	10,640	351	205,143	47,600	5.3[6]
112	103	**Lloyds Bank Group**	UK	Dec	10,222	–372	84,049	3,693	76.2
115	133	**Norinchukin Bank[6]**	Japan	Mar	9,993	140	186,117	none[3]	3.2
117	89	**Midland Group**	UK	Dec	9,884	–644	90,674	3,939	58.8
119	510	**BANESPA Group**	Brazil	Dec	9,767	285[9]	9,186[9]	49	32.2
120	114	**Bank of Tokyo Ltd**	Japan	Mar	9,721	342	183,507	18,397	13.6[6]
125	167	**Suez Group**	France	Dec	9,064	355	64,389	none[3]	18.7
132	187	**Banca Nazionale del Lavoro**	Italy	Dec	8,621	205	92,397	none[3]	28.6
135	389	**Banco Central Group**	Spain	Dec	8,394	348	85,938	4,242	24.1
141	138	**Dresdner Bank**	Germany	Dec	8,172	250	130,849	3,865	38.1
145	176	**Long-Term Credit Bank of Japan Ltd[6]**	Japan	Mar	7,933	263	142,560	28,672	3.3
146	172	**Tokai Bank Ltd**	Japan	Mar	7,909	282	170,096	28,511	12.8[6]
148	397	**Banco Itaú Group**	Brazil	Dec	7,847	231[9]	8,783[9]	167	80.4

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Our global table: Revenue and net income are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. For companies with January, February or March fiscal year-ends, 1987 figures are used when more current data are not available.

Nature's filters last a lifetime. So do ours.

Glass filters from Schott can be used ad infinitum. Shown here is an enlarged photo of a 6.6 cm (2.6 in.) glass filter with 3,419,460 pores.

The Right whale filters food from the water through its baleen – a series of up to 400 fringed whalebone plates.

The contrast between the Right whale's size and its prey is quite amazing, for this species feeds on tiny crustaceans. Obviously this giant would have a hard life if it had to snatch them a few at a time.

_____ But nature has equipped the whale with a sophisticated filter system. As it glides through a school of krill, it simply takes in a mouthful, closes its jaws and expels the water. The quantity of small creatures trapped in the baleen makes a decent meal.

_____ Of course this system serves the whale for a lifetime. With Schott glass filters, you can count on the same longevity.

_____ They're made of fine ground glass pressed to form sintered filter discs. The size of each pore can be standardized to suit any specific application: from 100 µm for filtering gas to 1.6 µm for filtering out bacteria. What's more, they are fully resistant to corrosive chemicals. Schott glass filters are consistently reliable and never wear out.

_____ Taking our cue from nature, we were the first to create the long-life glass filter.

_____ Glass filters are only one example of how Schott's innovative development responds to specific needs. In today's world, special glass helps keep technology advancing.

_____ Schott worldwide: 50,000 products, 40 production facilities, represented in more than 100 countries, with $1 billion in sales.

_____ Schott in the USA: 8 companies employing more than 1,200 people.

_____ Would you like to know more about our special glass? Write to Schott Corporation, Department F11, 3 Odell Plaza, Yonkers, NY 10701.

SCHOTT

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The 500 largest foreign companies

Rank 1987	Rank 1986	Company	Country	Fiscal year-end	Revenue[1] (mil)	Net income (mil)	Assets (mil)	Market value of common[2] (mil)	Employees (thou)
		BANKING							
154	189	**Mitsui Bank Ltd[6]**	Japan	Mar	$7,772	$317	$163,982	$29,194	10.3
176	134	**Royal Bank of Canada**	Canada	Oct	7,100	–193	77,643	2,565	42.8
185	188	**Union Bank of Switzerland**	Switzerland	Dec	6,843	505	125,521	9,269	20.9
207	192	**Westdeutsche Landesbank Group**	Germany	Dec	6,349	56	96,430	none[3]	7.4
208	238	**Taiyo Kobe Bank Ltd[6]**	Japan	Mar	6,346	195	138,936	14,589	13.6
209	210	**Commerzbank**	Germany	Dec	6,286	234	102,265	2,801	26.6
218	197	**Westpac Banking Group**	Australia	Sept	6,140	184	50,598	1,997	44.9
220	219	**Bayerische Vereinsbank Group**	Germany	Dec	6,080	122	94,613	2,162	14.3
223	503	**Banco Bilbao-Vizcaya**	Spain	Dec	6,044	575	56,884	5,793	33.0
226	180	**Canadian Imperial Bank of Commerce**	Canada	Oct	5,994	–47	67,159	2,410	33.9
227	163	**Bank of Montreal**	Canada	Oct	5,994	–263	64,008	2,100	34.4
230	233	**Swiss Bank Corp**	Switzerland	Dec	5,983	437	114,390	8,736	16.8
232	196	**Sanpaolo Group**	Italy	Dec	5,951	436	73,477	none[3]	18.2
235	323	**Sumitomo Trust & Banking Co Ltd[6]**	Japan	Mar	5,908	364	144,623	21,625	6.2
242	319	**Mitsubishi Trust & Banking Corp[6]**	Japan	Mar	5,745	376	155,809	21,521	6.2
243	566	**Unibanco Group**	Brazil	Dec	5,743	73[9]	4,106[9]	20	26.5
248	218	**Bancomer**	Mexico	Dec	5,683	224	9,101	none[3]	33.4
253	190	**CARIPLO Group**	Italy	Dec	5,598	185	64,502	none[3]	14.3
257	255	**Australia & New Zealand Banking Group**	Australia	Sept	5,552	274	46,984	1,961	41.2
259	205	**Generale Bank Group**	Belgium	Dec	5,540	172	65,609	1,561	31.9
271	281	**CIC-Crédit Industriel et Commercial**	France	Dec	5,371	102	62,869	824	27.0
278	253	**Banamex-Banco Nacional de México**	Mexico	Dec	5,199	251	10,499	none[3]	28.9
279	199	**Nippon Credit Bank Ltd**	Japan	Mar	5,197	138	92,321	10,032	2.1
281	250	**Monte dei Paschi di Siena Banking Group**	Italy	Dec	5,182	244	62,467	none[3]	16.7
287	286	**Bayerische Hypotheken-und Wechsel-Bank**	Germany	Dec	5,120	135	79,851	3,133	13.2
290	257	**Bank Hapoalim BM**	Israel	Dec	5,043	191	30,111	2,213	7.8[6]
296	276	**Bank of China**	China	Dec	4,921	1,041	81,434	none[3]	44.0
308	262	**Bank of Nova Scotia**	Canada	Oct	4,781	–233	54,282	1,658	26.2
317	373	**Mitsui Trust & Banking Co Ltd**	Japan	Mar	4,656	273	130,485[6]	15,491	5.7[6]
319	335	**Crédit Suisse**	Switzerland	Dec	4,623	369	83,912	7,032	15.0
323	399	**Shoko Chukin Bank**	Japan	Mar	4,595	45	92,244	none[3]	6.3
330	274	**Standard Chartered Group**	UK	Dec	4,545	–664	55,646	1,355	33.4
339	499	**Banco de la Nación Argentina**	Argentina	Dec	4,440	315	10,465	none[3]	18.9
345	385	**Crédit Commercial de France Group**	France	Dec	4,353	72	38,309	832	12.3
346	443	**Yasuda Trust & Banking Co Ltd**	Japan	Mar	4,347	203	117,641	11,639	5.1
347	578	**Bamerindus Group**	Brazil	Dec	4,334	40[9]	6,484[9]	none[3]	38.3
350	355	**DG Bank Group**	Germany	Dec	4,286	96	80,567	none[3]	4.7
353	359	**Skandinaviska Enskilda Bank Group**	Sweden	Dec	4,244	328[7]	39,960	2,686	9.1
358	403	**Kyowa Bank Ltd[6]**	Japan	Mar	4,159	169	87,169	10,020	8.7
362	350	**Banco di Napoli**	Italy	Dec	4,114	48	59,267	none[3]	13.6
364	321	**National Australia Bank Group**	Australia	Sept	4,109	221	33,791	1,848	24.3

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		BANKING							
369	346	**Bayerische Landesbank Girozentrale**	Germany	Dec	$4,055	$82	$83,036	none[3]	4.3
379	326	**Daiwa Bank Ltd[6]**	Japan	Mar	3,999	169	118,018	$13,089	9.1
393	308	**Toronto-Dominion Bank**	Canada	Oct	3,842	40	41,436	3,204	21.7
411	572	**Banco de la Provincia de Buenos Aires**	Argentina	Dec	3,662	145	5,147	none[3]	14.8
413	409	**Bank Bruxelles Lambert**	Belgium	Sept	3,634	93	43,728	765	15.8
417	352	**Commonwealth Banking Corp Group**	Australia	June	3,618	131	31,612	none[3]	38.2
421	421	**Norddeutsche Landesbank Group**	Germany	Dec	3,583	34	64,539	none[3]	6.2
425	453	**Saitama Bank Ltd[6]**	Japan	Mar	3,554	139	74,515	8,912	8.2
438	396	**Bank Leumi le-Israel BM**	Israel	Dec	3,508	250	25,519	1,998	12.6
439	400	**State Bank of India Group**	India	Dec	3,493	43	40,857	none[3]	284.9
440	445	**ASLK-CGER**	Belgium	Dec	3,476	79	41,310	none[3]	8.9
442	381	**Nacional Financiera SNC**	Mexico	Dec	3,446	34	17,118	none[3]	3.7
443	428	**Crédit Communal de Belgique**	Belgium	Dec	3,444	34	44,992	none[3]	3.5
444	489	**Japan Development Bank**	Japan	Mar	3,441	146	54,388	none[3]	1.1
449	517	**Hokkaido Takushoku Bank Ltd[6]**	Japan	Mar	3,392	86	61,946	5,384	6.7
479	376	**Kredietbank NV**	Belgium	Mar	3,174	126	39,157	1,153	11.0
481	553	**Bank of Yokohama Ltd**	Japan	Mar	3,167	100	63,780	8,502	6.8[6]
482	444	**PKbanken Group**	Sweden	Dec	3,155	208[7]	31,027	1,190	4.7
485	496	**Banco Hispano Americano Grupo**	Spain	Dec	3,127	23	30,866	2,363	20.4
494	456	**Banco di Sicilia**	Italy	Dec	3,080	20	30,046	none[3]	9.8
		BEVERAGES							
219	246	**Allied-Lyons Plc**	UK	Mar	6,108	499	8,113	4,714	78.1
337	328	**Kirin Brewery Co Ltd**	Japan	Jan	4,443	249	6,801	14,044	7.6[6]
374	392	**Bass Plc**	UK	Sept	4,026	408	5,987	5,162	79.3
468	487	**Suntory Ltd**	Japan	Mar	3,246	119	4,872	none[3]	4.7
		BUILDING PRODUCTS							
79	70	**Saint-Gobain**	France	Dec	13,124	420	14,869	3,436	131.0
381	380	**Pilkington Plc**	UK	Mar	3,972	298	3,352	3,038	56.7
474	495	**Lafarge Coppée**	France	Dec	3,213	255	3,984	2,725	20.1
		CHEMICALS AND DRUGS							
34	29	**BASF Group**	Germany	Dec	22,387	585	18,837	8,946	130.7
41	34	**Bayer Group**	Germany	Dec	20,665	833	20,331	10,372	164.3
42	37	**Hoechst Group**	Germany	Dec	20,561	767	18,293	8,880	167.8
46	44	**Imperial Chemical Industries Plc**	UK	Dec	18,230	1,246	16,445	13,689	127.8
105	102	**Montedison Group**	Italy	Dec	10,641	316	19,016	2,218	66.8
108	99	**CIBA-GEIGY Group**	Switzerland	Dec	10,571	613	17,338[9]	6,507	86.1
123	121	**Rhône-Poulenc Group**	France	Dec	9,343	393	11,249	none[3]	82.5
156	152	**Akzo Group**	Netherlands	Dec	7,669	465	6,646	1,948	69.5
173	158	**Mitsubishi Kasei Corp**	Japan	Jan	7,156	173	10,068	9,652	8.8[6]
224	239	**Sandoz Group**	Switzerland	Dec	6,021	420	7,467	6,177	44.0

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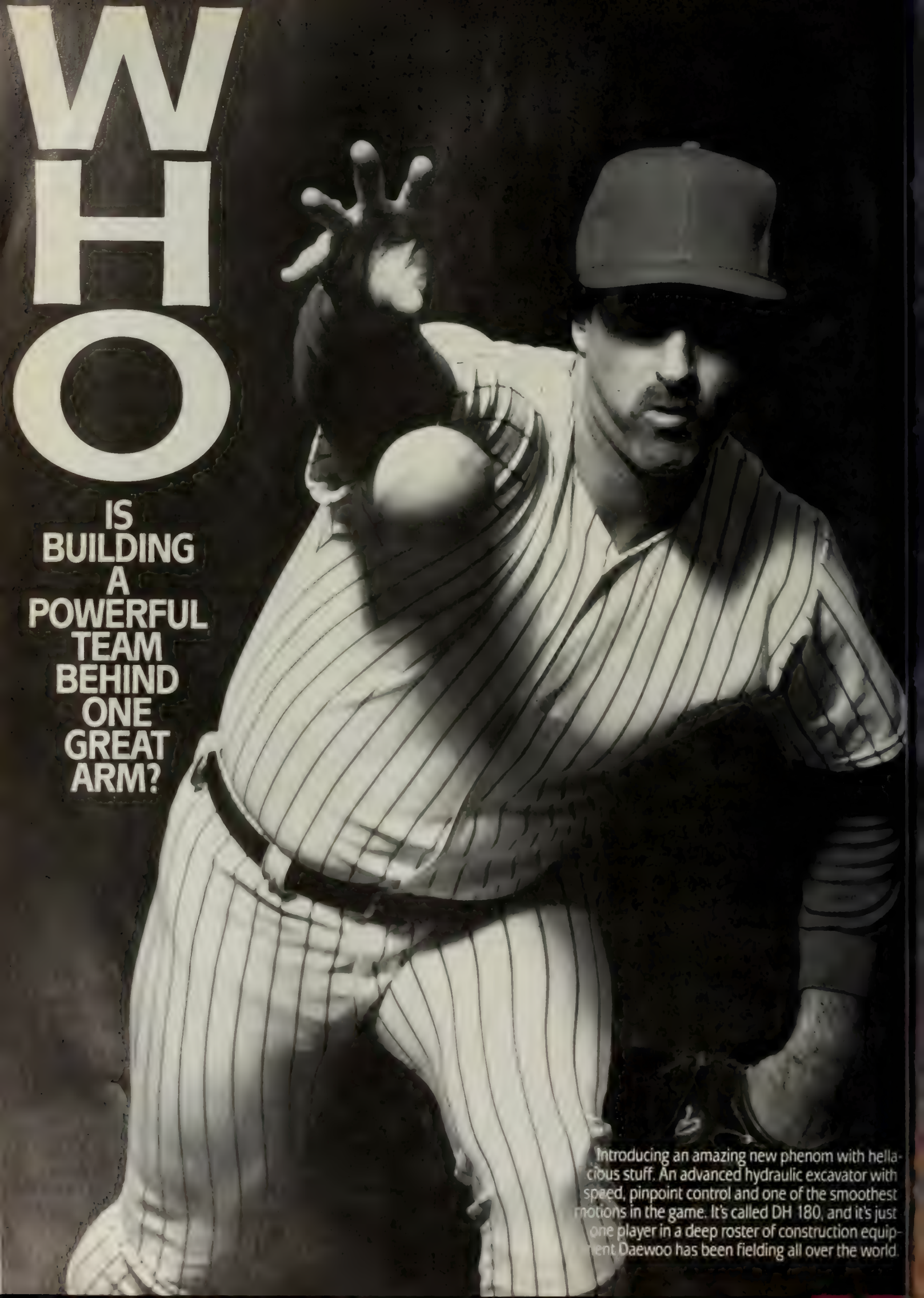
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The 500 largest foreign companies

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		CHEMICALS AND DRUGS							
229	226	Solvay Group	Belgium	Dec	$5,989	$287	$5,991	$2,229	45.0
251	243	Asahi Chemical Industry Co Ltd	Japan	Mar	5,659	131	6,120	9,363	22.0
255	268	Sumitomo Chemical Co Ltd	Japan	Dec	5,576	114	7,371	10,066	12.3
274	297	Formosa Plastics Group	Taiwan	Dec	5,271	NA	5,258	none[3]	44.2
284	269	Roche/Sapac Group	Switzerland	Dec	5,167	323	10,737	6,583	47.5
286	293	Henkel Group	Germany	Dec	5,150	151	4,286	none[3]	34.2
329	129	NV DSM	Netherlands	Dec	4,550	218	4,515	none[3]	27.9
360	351	Courtaulds Plc	UK	Mar	4,123	244	3,047	2,418	68.5
397	422	Showa Denko KK	Japan	Dec	3,778	–14	5,486	4,808	5.0[6]
423	488	Takeda Chemical Industries Ltd	Japan	Mar	3,575	178	5,239	18,518	13.6
454	410	CDF Chimie	France	Dec	3,373	163	2,862	none[3]	16.6
483	458	Ube Industries Ltd	Japan	Mar	3,153	–32	5,327	2,459	7.5[6]
		COMMODITIES							
304	47	S&W Berisford Plc	UK	Sept	4,853	100	2,971	1,062	9.9
332	142	Ferruzzi Group	Italy	Dec	4,538E	449	9,284	none[3]	26.0
388	427	Groupe Sucres et Denrées	France	Dec	3,871	12	1,442	none[3]	5.5
394	299	Alfred C Toepfer Internationale Gruppe	Germany	Nov	3,831	NA	NA	none[3]	0.7
		COMMUNICATIONS							
11	9	Nippon Telegraph & Telephone Corp	Japan	Mar	40,926	1,758	87,143	277,562	291.0
19	19	Deutsche Bundespost	Germany	Dec	28,959	1,504	102,630	none[3]	489.3
23	15	PTT-Postes et Télécommunications	France	Dec	26,037	NA	NA	none[3]	466.9
48	48	British Telecommunications Plc	UK	Mar	17,342	2,477	31,058	24,866	237.2
97	82	BCE Inc	Canada	Dec	11,048	820	20,022	7,796	117.0
214	217	Schweizerische PTT	Switzerland	Dec	6,164	327	16,379	none[3]	58.9
277	292	Netherlands PTT	Netherlands	Dec	5,201	1,062	12,169	none[3]	94.6
280	261	British Post Office	UK	Mar	5,183	236	7,368[9]	none[3]	188.7
289	265	Telefonaktiebolaget LM Ericsson	Sweden	Dec	5,110	104[5]	5,691	1,092	67.2
343	354	Telefónica	Spain	Dec	4,379	431	19,694	6,097	63.3
455	440	STC Group Plc	UK	Dec	3,358	222	2,536	2,371	34.3
470	469	Swedish Telecom Group	Sweden	Dec	3,242	89	7,987	none[3]	49.4
480	494	Österreichische PTT	Austria	Dec	3,172	333	8,346	none[3]	57.2
		CONSTRUCTION							
155	146	Kajima Corp	Japan	Nov	7,749	96	11,227	9,007	15.0
164	195	Taisei Corp	Japan	Mar	7,363	60	8,969	6,089	12.0
183	174	Bouygues Group	France	Dec	6,883	81	7,969	926	60.5
199	230	Shimizu Construction Co Ltd	Japan	Mar	6,548	58	7,760	4,747	10.2[6]
205	245	Takenaka Corp	Japan	Dec	6,394	39	9,006	none[3]	11.1
268	223	Kumagai Gumi Co Ltd	Japan	Sept	5,432	80	8,888	3,545	8.0[6]
272	325	Ohbayashi Corp	Japan	Mar	5,312	38	7,097	4,843	9.9[6]
334	375	Sekisui House Ltd	Japan	Jan	4,466	112	7,121	5,704	9.0[6]

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		CONSTRUCTION							
390	507	**Mitsui Real Estate Development Co Ltd**	Japan	Mar	$3,860	$132	$11,415	$8,238	6.7
408	395	**Trafalgar House Plc**	UK	Sept	3,689	119	3,431	2,827	32.3
428	477	**Tarmac Plc**	UK	Dec	3,545	272	3,220	3,007	28.0
447	■	**Fujita Corp**	Japan	Nov	3,398	34	6,973	1,855	5.5
473	404	**Philipp Holzmann AG**	Germany	Dec	3,225	12	1,556	323	23.5
492	532	**Skanska AB**	Sweden	Dec	3,096	130[7]	4,221	2,921	29.4
		CONSUMER ELECTRONICS							
15	14	**Matsushita Electric Industrial Co**	Japan	Mar	34,833	1,177	38,607	31,480	170.0
107	123	**Electrolux Group[5]**	Sweden	Dec	10,635	289	8,408	2,477	140.5
111	119	**Sony Corp**	Japan	Mar	10,345	266	14,887	9,131	60.5
142	136	**Sanyo Electric Co Ltd**	Japan	Nov	8,168	–119	11,728	5,649	40.6
172	183	**Sharp Corp**	Japan	Mar	7,186	130	9,601	6,664	22.8[6]
385	248	**THORN EMI Plc**	UK	Mar	3,906	112	3,162	2,734	62.2
		CONSUMER GOODS							
178	140	**Grand Metropolitan Plc**	UK	Sept	7,033	719	7,459	7,205	90.7
192	■	**Japan Tobacco[6]**	Japan	Mar	6,675	304	12,298	none[3]	28.1
266	272	**Fuji Photo Film Co Ltd**	Japan	Oct	5,443	481	7,547	12,126	17.7
370	348	**Beecham Group Plc**	UK	Mar	4,049	408	4,756	6,225	35.8
404	■	**Kao Corp**	Japan	Mar	3,718	97	3,593	6,821	6.7[6]
456	463	**L'Oréal Group**	France	Dec	3,343	181	3,158	2,739	26.9
		COOPERATIVE							
74	74	**REWE-Zentral Organisation**	Germany	Dec	13,659	NA	NA	none[3]	92.5
88	139	**Edeka-Zentrale**	Germany	Dec	11,572	NA	NA	none[3]	30.0
101	53	**Metro-Deutschland Gruppe**	Germany	Dec	10,905E	NA	NA	none[3]	91.0
103	101	**Leclerc**	France	Dec	10,847	NA	NA	none[3]	33.5
162	166	**Migros-Genossenschafts-Bund**	Switzerland	Dec	7,438	109	6,165	none[3]	45.5
198	236	**Deutsche SPAR-Zentrale**	Germany	Dec	6,573	NA	NA	none[3]	27.2
225	285	**KF-Coop Group**	Sweden	Dec	5,996	43[7]	2,788	none[3]	27.8
246	235	**Coop Suisse**	Switzerland	Dec	5,710	NA	NA	none[3]	31.5
359	330	**S Group**	Finland	Dec	4,130	–3[6]	1,160[6]	none[3]	29.6
367	377	**Eka Corporation**	Finland	Dec	4,080	4	4,263	none[3]	27.1
395	327	**Systeme U**	France	Dec	3,827	NA	NA	none[3]	18.0
424	313	**GEDELFI**	Germany	Dec	3,561	NA	NA	none[3]	0.2
469	■	**FDB Co-op Denmark**	Denmark	Dec	3,243	34	1,453	none[3]	22.8
		ELECTRICAL EQUIPMENT							
21	28	**Siemens Group**	Germany	Sept	27,461	650	29,850	10,843	359.0
24	21	**Philips Group**	Netherlands	Dec	26,023	317	26,811	3,835	336.7
37	66	**Cie Générale d'Electricité**	France	Dec	21,206	305	32,035	2,840	219.5

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The 500 largest foreign companies

Rank 1987	Rank 1986	Company	Country	Fiscal year-end	Revenue[1] (mil)	Net income (mil)	Assets (mil)	Market value of common[2] (mil)	Employees (thou)
		ELECTRICAL EQUIPMENT							
54	■	Asea Brown Boveri Group	Sweden/Switz	Dec	$15,750E	NA	NA	$4,626[8]	166.8
116	98	Le Groupe Thomson	France	Dec	9,978	$177	$15,525	none[3]	86.0
321	340	Matsushita Electric Works	Japan	Nov	4,599	126	4,357	7,844	17.2
326	372	Sumitomo Electric Industries Ltd	Japan	Mar	4,577	104	4,643	8,144	13.2[6]
368	378	BICC Plc Group	UK	Dec	4,079	105	2,379	1,449	44.4
427	426	Furukawa Electric Co Ltd	Japan	Mar	3,549	74	3,953	3,303	7.2[6]
453	509	Fuji Electric Co Ltd	Japan	Mar	3,375	28	3,941	2,588	12.8[6]
		FINANCIAL							
175	198	Nomura Securities Co Ltd	Japan	Sept	7,117	1,778	23,817	39,920	12.0
282	287	Crédit Foncier de France	France	Dec	5,177	67	57,050	1,148	3.6[6]
293	358	Daiwa Securities Co Ltd	Japan	Sept	4,975	988	30,001	16,352	10.0
		FOOD DISTRIBUTION							
102	107	Aldi GmbH & Co KG	Germany	Dec	10,849E	NA	NA	none[3]	20.0
139	131	George Weston Ltd	Canada	Dec	8,322	101	2,728	1,135	67.3
250	240	Casino Groupe	France	Dec	5,663	58	2,185	771	40.2
303	301	Provigo Inc	Canada	Jan	4,863	51	1,219	553	12.7
312	298	ICA Group	Sweden	Dec	4,731	68[7]	1,766	none[3]	14.3
448	430	Carnegie Group	Sweden	Dec	3,394	44[7]	2,798	703	15.8
		FOOD PROCESSING							
22	16	Unilever	Netherlands/UK	Dec	27,124	1,278	18,713	15,968[8]	301.0
29	25	Nestlé	Switzerland	Dec	23,633	1,225	19,674	14,238	163.0
160	135	Dalgety Plc	UK	June	7,570	118	1,942	1,317	24.0
163	159	Taiyo Fishery Co Ltd	Japan	Jan	7,410	1	3,523	1,045	13.5
213	224	BSN-Groupe	France	Dec	6,182	258	6,432	4,216	41.3
270	303	Snow Brand Milk Products Co Ltd	Japan	Mar	5,390	24	2,467	2,341	14.8
292	■	Hillsdown Holdings Plc	UK	Dec	4,980	145	3,003	2,176	44.1
365	423	Jacobs Suchard Group	Switzerland	Dec	4,093	178	2,419	3,139	17.1
384	343	Co-operative Wholesale Society Ltd	UK	Dec	3,937	34	1,493	none[3]	22.2
389	363	Associated British Foods Plc	UK	Mar	3,868	185	3,795	2,493	53.9
410	414	Unigate Group	UK	Mar	3,686	121	1,583	1,208	34.6
429	525	John Labatt	Canada	Apr	3,543	108	2,065	1,290	17.9
458	448	Cadbury Schweppes Plc	UK	Dec	3,329	181	2,618	2,567	27.5
466	506	Nippon Suisan Kaisha Ltd	Japan	Mar	3,262	15	2,017	1,225	4.0[6]
		INDUSTRIAL EQUIPMENT							
76	42	Mitsubishi Heavy Industries Ltd	Japan	Mar	13,495	223	29,839	12,868	46.7[6]
124	112	Mannesmann Group	Germany	Dec	9,266	119	8,507	1,691	113.3
180	215	M A N Group	Germany	June	7,010	68	6,510	848	52.6
244	273	Ishikawajima-Harima Heavy Industries	Japan	Mar	5,738	-146	9,210	6,393	16.1[6]

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		INDUSTRIAL EQUIPMENT							
288	237	**Komatsu Ltd**	Japan	Dec	$5,120	$66	$8,320	$4,025	22.9
486	436	**SKF Group[5]**	Sweden	Dec	3,125	45	3,987	1,062	43.7
489	482	**Sulzer Group**	Switzerland	Dec	3,109	52	5,334	753	31.7
		INDUSTRIAL GASES							
386	408	**L'Aire Liquide Group**	France	Dec	3,903	231	5,192	3,642	26.0
498	433	**BOC Group Plc**	UK	Sept	3,052	252	3,706	3,233	36.9
		INSURANCE							
12	23	**Nippon Life Insurance Co**	Japan	Mar	37,704	3,858	103,836	none[3]	14.4
32	59	**Dai-ichi Mutual Life Insurance**	Japan	Mar	22,526	2,680	71,010	none[3]	15.0
35	49	**Zenkyoren**	Japan	Mar	22,135	NA	87,166	none[3]	7.8
44	71	**Sumitomo Life Insurance Co**	Japan	Mar	19,083	2,106	58,907	none[3]	10.6
69	100	**Allianz Worldwide**	Germany	Dec	14,389E	NA	13,424[4]	11,050	41.1
87	122	**Meiji Mutual Life Insurance Co**	Japan	Mar	12,229	1,385	38,089	none[3]	8.0
110	153	**UAP-Union des Assurances de Paris**	France	Dec	10,359	424	34,819	2,970	27.1
114	157	**Asahi Mutual Life Insurance**	Japan	Mar	10,005	1,266	33,594	none[3]	8.6
127	150	**Generali Group**	Italy	Dec	9,019	324	23,033	15,499	22.0
131	148	**Prudential Corp Plc**	UK	Dec	8,703	286	49,548	5,617	35.0
137	141	**Zurich Insurance Group**	Switzerland	Dec	8,351	105[6]	10,416[6]	5,083	25.2
150	151	**Nationale-Nederlanden**	Netherlands	Dec	7,830	347	38,913	3,404	22.7
152	214	**Mitsui Mutual Life Insurance Co**	Japan	Mar	7,800	946	24,994	none[3]	31.1
167	160	**Royal Insurance Plc**	UK	Dec	7,326	294	22,987	3,509	23.2
184	279	**Yasuda Mutual Life Insurance Co**	Japan	Mar	6,848	873	20,943	none[3]	6.7
217	256	**Münchener Rückversicherungs[6]**	Germany	June	6,152	31	14,582	4,459	1.7
233	254	**AGF-Assurances Générales de France**	France	Dec	5,943	291	17,152	2,476	16.6
234	252	**Winterthur Group**	Switzerland	Dec	5,922	128	21,252	3,319	13.5
241	270	**Swiss Re Group**	Switzerland	Dec	5,756[4]	100[4]	17,413[4]	3,611	14.5
299	275	**Commercial Union Assurance Co Plc**	UK	Dec	4,888	233	21,545	2,608	19.1
306	284	**Sun Alliance & London Insurance Plc**	UK	Dec	4,797	198	19,998	3,152	15.0
314	394	**Nissan Fire & Marine Insurance[6]**	Japan	Mar	4,715	27	3,452	2,811	4.2
318	361	**Tokio Marine & Fire Insurance Co Ltd**	Japan	Mar	4,627	299	36,087	18,698	11.1[6]
321	365	**GAN-Groupe des Assurances Nationales**	France	Dec	4,599	221	13,880	1,090	8.7
335	296	**Sun Life Assurance Co**	Canada	Dec	4,456	116	16,717	none[3]	8.0
338	333	**Australian Mutual Provident Society**	Australia	Dec	4,442	NA	18,125	none[3]	7.2
347	344	**AXA Group**	France	Dec	4,294	99	11,282	none[3]	8.3
348	388	**AEGON Insurance Group**	Netherlands	Dec	4,292	167	24,230	1,180	9.8
349	366	**Swiss Life Insurance & Pension Co**	Switzerland	Dec	4,289	509	22,717	none[3]	4.2
352	311	**General Accident Fire & Life Assurance**	UK	Dec	4,247	264	9,866	2,879	12.3[6]

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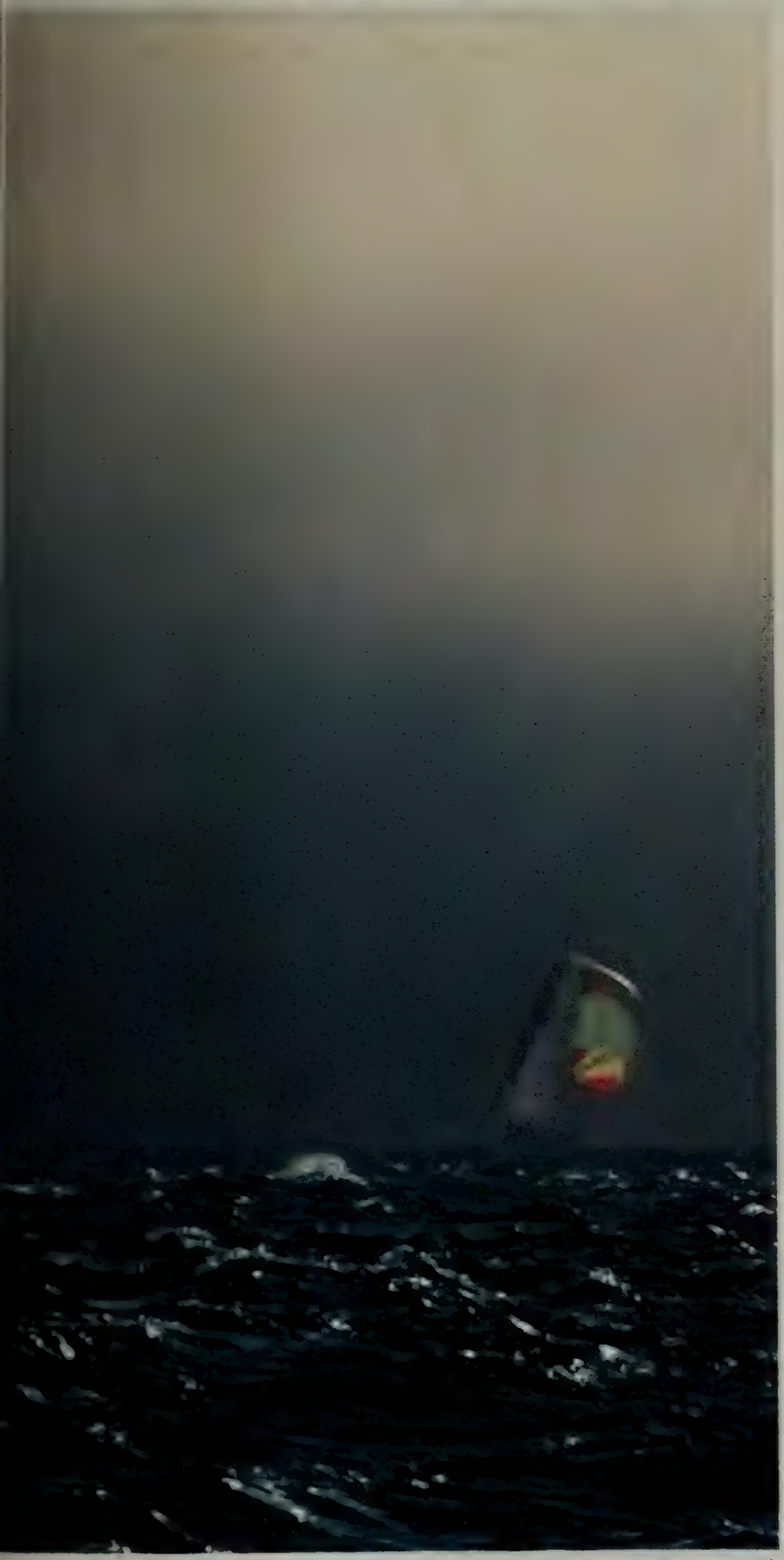

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The 500 largest foreign companies

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		INSURANCE							
354	318	Guardian Royal Exchange Plc	UK	Dec	$4,243	$177	$16,699	$2,489	14.2
355	364	Manufacturers Life Insurance Co	Canada	Dec	4,216	103	16,723	none[3]	5.7
391	465	Yasuda Fire & Marine Insurance Co Ltd[6]	Japan	Mar	3,846	78	12,761	6,360	10.7
398	360	AMEV NV	Netherlands	Dec	3,771	144	13,915	1,177	10.7
402	425	Standard Life Assurance Co	UK	Nov	3,749	NA	23,390	none[3]	5.2
415	374	Great-West Lifeco	Canada	Dec	3,628	48	11,921	605	3.2
416	441	Legal & General Group	UK	Dec	3,620	101	22,936	2,473	8.0
488	435	Crownx	Canada	Dec	3,115	–57	7,919	197	29.9
		LEISURE							
431	485	International Thomson Organisation Ltd	Canada	Dec	3,537	209	3,419	2,702	23.2
451	468	Ladbroke Group Plc	UK	Dec	3,378	230	4,559	2,548	28.8
		MINING							
93	87	Ruhrkohle	Germany	Dec	11,276	10	11,761	none[3]	127.2
190	125	British Coal	UK	Mar	6,738	–430	10,807	none[3]	141.5
435	369	CRA Limited	Australia	Dec	3,525	226	5,964	2,743	25.0
491	442	Saarberg Group	Germany	Dec	3,096	0	3,002	none[3]	29.8
		MULTICOMPANY							
10	11	IRI Group	Italy	Dec	41,287	147	NA	none[3]	422.0
14	12	Hitachi Ltd	Japan	Mar	35,961	989	44,826	27,129	159.9
25	27	Toshiba Corp	Japan	Mar	25,822	439	27,585	13,682	122.0
36	35	VEBA Group	Germany	Dec	21,556	573	20,911	6,575	74.1
40	40	Samsung Group	Korea	Dec	21,148	250	14,625	none[3]	160.6
47	38	B.A.T Industries Plc	UK	Dec	17,792	1,231	15,940	12,291	168.9
49	92	Mitsubishi Electric Corp	Japan	Mar	17,119	161	13,327[4]	8,220	49.4[4]
68	68	Lucky-Gold Star Group	Korea	Dec	14,487	181	10,315	none[3]	88.4
70	52	Thyssen Group	Germany	Sept	14,176	151	8,773	2,077	123.4
75	69	Daewoo Group	Korea	Dec	13,498	37	19,770	none[3]	94.9
81	77	ÖIAG-Österreichische Industrie Verwalt	Austria	Dec	12,972E	–672E	18,222E	none[3]	96.8
83	79	INI Group	Spain	Dec	12,737	–345	31,885	none[3]	163.8
130	73	Canadian Pacific Ltd	Canada	Dec	8,804	623	13,849	4,805	85.4
144	126	Norsk Hydro a s[5]	Norway	Dec	8,089	272	10,734	1,950	39.1
157	168	Barlow Rand Group	South Africa	Sept	7,632	222	5,243	1,755	140.4
165	154	Hanson Plc	UK	Sept	7,332	891	10,389	8,539	88.0
186	162	Sunkyong Group	Korea	Dec	6,812	91	3,537	none[3]	19.8
187	173	BTR Plc	UK	Dec	6,800	785	6,116	8,643	81.8
221	207	Klöckner & Co	Germany	Dec	6,077	4	1,932	none[3]	9.8
236	314	Preussag Group	Germany	Dec	5,799	45	3,259	579	29.7
265	267	Feldmühle Nobel Group	Germany	Dec	5,454	84	4,245	1,071	42.9

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			MULTICOMPANY						
297	316	Kawasaki Heavy Industries Ltd	Japan	Mar	$4,893	$–87	$6,757	$2,554	23.1
301	337	Koç Group	Turkey	Dec	4,880	167	1,631	none[3]	35.5
307	432	Peninsular & Oriental Steam Navigation	UK	Dec	4,786	347	5,835	3,585	48.1
315	277	VIAG Group	Germany	Dec	4,698	106	5,901	1,313	32.7
320	317	Ssangyong Group	Korea	Dec	4,603	75	4,763	none[3]	16.9[6]
331	264	SHV Holdings NV	Netherlands	Dec	4,542	87	2,593	none[3]	21.9
409	371	Haci Ömer Sabanci Holding Corp	Turkey	Dec	3,687	225	3,958	none[3]	29.1
434	412	Korea Explosives Group	Korea	Dec	3,526	NA	NA	none[3]	17.8
459	548	CSR Group	Australia	Mar	3,323	132	3,264	1,342	16.1
463	447	Hyosung Group	Korea	Dec	3,272	59	2,287	none[3]	24.0
478	512	Oy Nokia	Finland	Dec	3,185	192	4,011	1,539	29.3
			NONFERROUS METALS						
174	280	Metallgesellschaft AG	Germany	Sept	7,117	42	3,871	747	24.8
188	169	Alcan Aluminium Ltd	Canada	Dec	6,797	433	7,660	4,246	63.0
202	209	Pechiney	France	Dec	6,480	121	6,957	none[3]	46.2
211	234	Degussa AG	Germany	Sept	6,257	64	3,287	1,459	30.8
256	221	RTZ Corporation Plc	UK	Dec	5,568	459	7,535	5,090	51.0
361	464	Mitsubishi Metal Corp	Japan	Mar	4,121	–3	4,502	3,367	7.0[6]
446	379	Alusuisse	Switzerland	Dec	3,401	173	4,192	664	23.5
490	■	Sumitomo Metal Mining Co Ltd[6]	Japan	Mar	3,103	17	2,446	4,346	3.2
			OFFICE EQUIPMENT						
57	76	NEC Corp	Japan	Mar	15,326	94	18,964	21,873	101.2
63	120	Fujitsu Ltd	Japan	Mar	14,795	304	18,474	15,144	94.8
189	194	Canon Inc	Japan	Dec	6,753	92	9,181	4,481	37.5
247	220	Olivetti Group	Italy	Dec	5,691	310	9,198	2,850	58.1
406	452	Ricoh Co Ltd	Japan	Mar	3,706	68	3,858	5,264	28.0
			OIL AND GAS						
6	5	Royal Dutch/Shell Group	Netherlands/UK	Dec	78,306	4,725	86,561	50,834[8]	136.0
8	8	British Petroleum Co Plc	UK	Dec	45,198	2,280	49,977	27,896	126.4
28	20	ENI-Ente Nazionale Idrocarburi	Italy	Dec	24,252	484[4]	31,351	none[3]	120.0
38	39	Elf Aquitaine Group	France	Dec	21,188	690	28,766	4,425	73.0
52	93	Petróleos de Venezuela SA	Venezuela	Dec	16,028	2,923	23,851	none[3]	44.2
55	46	Petrobrás-Petróleo Brasileiro SA	Brazil	Dec	15,641	171[9]	15,460[9]	420	68.0
67	51	TOTAL Group-Française des Pétroles	France	Dec	14,489	242	13,579	2,376	40.5
78	72	Pemex-Petróleos Mexicanos	Mexico	Dec	13,131	3,011	34,553	none[3]	178.7
95	90	Idemitsu Kosan Co Ltd[6]	Japan	Mar	11,219	9	8,534[4]	none[3]	5.5
98	54	Nippon Oil Co Ltd	Japan	Mar	11,042	70	9,542	8,475	11.1
113	50	Kuwait Petroleum Corp	Kuwait	June	10,107	247	20,840	none[3]	15.6[6]

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		OIL AND GAS							
121	■	**Kyodo Oil**	Japan	Mar	$9,537	$38	$4,129	none[3]	1.7
126	145	**Statoil Group**	Norway	Dec	9,027	–228	9,024	none[3]	10.6
128	105	**Cosmo Oil Co Ltd**	Japan	Mar	8,843E	36	6,084	$1,700	3.1[6]
133	110	**Indian Oil Corp Ltd**	India	Mar	8,587	335	3,178	none[3]	32.6
134	116	**Petrofina SA**	Belgium	Dec	8,548	470	9,632	4,674	22.1
158	86	**Nederlandse Gasunie Group**	Netherlands	Dec	7,630	39	3,379	none[3]	1.9
161	104	**Repsol SA**	Spain	Dec	7,536	463	6,904	none[3]	18.7
196	186	**Chinese Petroleum Corporation**	Taiwan	Dec	6,622	1,985	7,345	none[3]	20.6
203	211	**Neste Group**	Finland	Dec	6,405	245	5,795	none[3]	11.2
245	406	**Türkiye Petrolleri AO**	Turkey	Dec	5,728	488	3,911	none[3]	18.8
273	155	**Ruhrgas**	Germany	Dec	5,305	285	2,996	none[3]	6.4
301	258	**CEA-Industrie Groupe**	France	Dec	4,880	299	16,441	none[3]	30.7
309	278	**YPF-Yacimientos Petroliferos Fiscales**	Argentina	Dec	4,775	NA	8,372[9]	6,789	34.9
333	206	**Nippon Mining Co Ltd**	Japan	Mar	4,513	20	4,741	2,661	5.7[6]
340	289	**Toa Nenryo Kogyo KK**	Japan	Dec	4,409	264	4,892	6,703	2.3[6]
341	249	**Schlumberger Ltd**	Neth Antilles	Dec	4,402	283	6,741	7,826	50.0
357	227	**Mitsubishi Oil Co Ltd**	Japan	Mar	4,161	52	3,572	1,288	2.5[6]
399	320	**Petro-Canada**	Canada	Dec	3,757	161	6,503	none[3]	7.2
		PAPER AND PACKAGING							
262	476	**Noranda**	Canada	Dec	5,471	259	7,382	3,587	44.0
422	473	**Toyo Seikan Kaisha Ltd**	Japan	Mar	3,577	113	2,875	3,227	14.5
462	492	**Oji Paper Co Ltd**	Japan	Mar	3,272	77	3,620	4,993	5.4[6]
472	■	**Stora Group**	Sweden	Dec	3,230	185[7]	5,689	2,198	21.5
		PUBLISHING							
215	391	**Saatchi & Saatchi Plc**	UK	Sept	6,159	118	1,492	1,235	15.6
269	304	**Dai Nippon Printing Co Ltd**	Japan	May	5,412	181	4,589	14,641	13.9
298	332	**Toppan Printing Co Ltd**	Japan	May	4,889	120	3,966	7,594	18.0
311	398	**Bertelsmann Aktiengesellschaft**	Germany	June	4,735	107	3,555	none[3]	42.0
433	454	**News Corporation Ltd**	Australia	June	3,529	548	9,109	2,282	23.0
467	434	**Reed International Plc**	UK	Mar	3,247	492	3,515	4,027	31.2
		RETAILING							
84	81	**Daiei Inc**	Japan	Feb	12,570	34	6,523	4,205	28.1
118	113	**Ito-Yokado Co Ltd**	Japan	Feb	9,774	310	5,477	10,753	28.1
136	147	**Vendex International Group**	Netherlands	Jan	8,376	113	3,348[9]	none[3]	79.1
153	156	**Marks & Spencer Plc**	UK	Mar	7,794	550	5,939	9,061	45.7
159	130	**Coles Myer Ltd**	Australia	July	7,618	164	2,696	2,064	141.2
168	171	**Seiyu Ltd**	Japan	Feb	7,276	42	6,133	1,880	26.0
177	178	**Jusco Co Ltd**	Japan	Feb	7,073	75	4,386	3,358	19.6
179	175	**Nichii Co Ltd**	Japan	Feb	7,031	78	5,222	2,838	33.1

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Rank 1987	Rank 1986	Company	Country	Fiscal year-end	Revenue[1] (mil)	Net income (mil)	Assets (mil)	Market value of common[2] (mil)	Employees (thou)
		RETAILING							
182	202	**Otto Versand-Group**	Germany	Feb	$6,895	NA	$1,227[4]	none[3]	28.0
195	204	**Karstadt Group**	Germany	Dec	6,640	$95	2,971	$1,949	66.3
210	200	**Takashimaya Co Ltd**	Japan	Feb	6,269E	94E	2,926[4]	2,401	7.8[6]
240	241	**Co op AG**	Germany	Dec	5,762	35	2,127	1,137	48.7
254	260	**Mitsukoshi**	Japan	Feb	5,584	23	1,812[4]	5,367	11.5[6]
275	251	**Daimaru**	Japan	Feb	5,258E	7E	1,938[4]	1,317	7.7[6]
283	■	**Asko Deutsche Kaufhaus AG**	Germany	Dec	5,174	NA	767[4]	728	40.0
294	305	**Kaufhof**	Germany	Dec	4,951	41	2,503	1,907	40.5
324	339	**Boots Co Plc**	UK	Mar	4,592	323	2,855	4,041	67.0
373	322	**Woolworths Ltd**	Australia	Jan	4,032	23	1,049	341	60.0
376	368	**Uny Co Ltd**	Japan	Feb	4,019	60	2,646	1,830	9.7
396	411	**GB-Inno-BM**	Belgium	Jan	3,806	53	1,593	813	18.6
407	460	**Docks de France**	France	Dec	3,701	28	1,214	260	22.4
414	357	**Imasco Ltd**	Canada	Dec	3,631	191	4,347	2,373	92.4
419	449	**Woolworth Holdings Plc**	UK	Jan	3,613	232	3,022	2,056	36.6
432	383	**Great Universal Stores Plc**	UK	Mar	3,531	348	4,190	5,266	33.3
436	367	**Sears Plc**	UK	Jan	3,514	194	3,665	3,620	63.1
437	405	**C & A Brenninkmeyer**	Germany	Dec	3,513E	NA	NA	none[3]	20.0
445	288	**Hudson's Bay Co**	Canada	Jan	3,435	–73	2,833	444	38.0
471	■	**Marui**	Japan	Jan	3,238	134	3,021[4]	7,350	8.5
475	467	**Littlewoods Organisation Plc**	UK	Dec	3,204	84	2,077	none[3]	36.0
		STEEL							
64	57	**Nippon Steel Corp**	Japan	Mar	14,641	–68	24,678	19,453	63.3[6]
96	78	**Groupe Usinor Sacilor**	France	Dec	11,166	–970	13,627	none[3]	90.1
147	127	**Krupp Group**	Germany	Dec	7,848	NA	5,584[4]	none[3]	65.2
166	161	**NKK Corp**	Japan	Mar	7,326	–129	17,698	6,864	35.1
193	182	**Kobe Steel Ltd**	Japan	Mar	6,646	–74	14,052	4,959	24.4[6]
212	181	**Kawasaki Steel Corp**	Japan	Mar	6,252	–42	12,698	7,315	24.4[6]
228	185	**Sumitomo Metal Industries Ltd**	Japan	Mar	5,992	–87	14,869	5,856	25.2[6]
237	170	**Broken Hill Proprietary Co Ltd**	Australia	May	5,794	570	12,504	8,211	61.0
285	203	**British Steel Corp**	UK	Mar	5,165	266	6,871	none[3]	54.7
356	312	**Salzgitter**	Germany	Sept	4,188	37	4,415	none[3]	37.5
366	349	**Hoesch Group**	Germany	Dec	4,083	27	4,023	409	32.8
383	300	**Cockerill Sambre Groupe**	Belgium	Dec	3,943	–50	4,401	1,049	26.7
403	382	**Siderbrás Group**	Brazil	Dec	3,742	–4,362	14,113	none[3]	79.5
426	478	**Pohang Iron & Steel Co Ltd**	Korea	Dec	3,549	86	6,486	none[3]	19.3
477	370	**Klöckner-Werke Group**	Germany	Sept	3,189	–209[6]	2,574[6]	269	28.2
484	345	**Steel Authority of India Ltd**	India	Mar	3,134	41	7,082	none[3]	206.7
497	462	**Hoogovens Groep**	Netherlands	Dec	3,055	–38	4,719	286	28.3

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The 500 largest foreign companies

Rank 1987	Rank 1986	Company	Country	Fiscal year-end	Revenue[1] (mil)	Net income (mil)	Assets (mil)	Market value of common[2] (mil)	Employees (thou)
		SUPERMARKETS							
58	58	**Tengelmann Group**	Germany	June	$15,250	NA	NA	none[3]	130.3
122	124	**Carrefour Group**	France	Dec	9,400	$127	$4,209	$2,176	40.4
143	179	**J Sainsbury Plc**	UK	Mar	8,158	340	4,070	6,066	54.2
169	295	**Dee Corporation Plc**	UK	Apr	7,275	151	2,801	3,475	84.2
181	191	**Tesco Plc**	UK	Feb	6,932	259	2,955	4,362	50.2
238	242	**Promodès Group**	France	Dec	5,773	25	2,171	346	30.4
260	401	**Argyll Group Plc**	UK	Mar	5,510	170	2,102	3,206	63.0
263	266	**Ahold**	Netherlands	Dec	5,463	65	1,710	684	35.7
325	307	**Delhaize "Le Lion" Group**	Belgium	Dec	4,584	41	1,343	943	40.0
372	334	**Asda Group Plc**	UK	Apr	4,040	195	2,000	3,702	44.2
460	420	**Steinberg Inc**	Canada	July	3,313	43	1,107	421	36.0
465	474	**Euromarché SA**	France	Dec	3,268	38	1,230	543	18.9
		TEXTILES							
336	331	**Toray Industries**	Japan	Mar	4,446	98	5,609	7,299	26.7
430	484	**Kanebo Ltd**	Japan	Apr	3,542	–42	4,216	1,843	26.5
461	459	**Teijin Ltd**	Japan	Mar	3,305	98	4,288	5,052	6.4[6]
		TRADING							
1	2	**Mitsubishi Corp**	Japan	Mar	96,606	225	60,064	12,222	13.9
2	3	**C Itoh & Co Ltd**	Japan	Mar	92,356	126	30,515	5,565	12.0
3	1	**Mitsui & Co Ltd**	Japan	Mar	88,640	95	35,557	6,675	11.4
4	6	**Marubeni Corp**	Japan	Mar	82,871	54	37,330	3,270	10.1
5	4	**Sumitomo Corp**	Japan	Mar	81,709	184	20,546	5,604	12.2
7	7	**Nissho Iwai Corp**	Japan	Mar	75,441	61	22,429	2,054	7.3
20	18	**Toyo Menka Kaisha Ltd**	Japan	Mar	27,631	19	10,032	1,468	5.0
30	22	**Nichimen Corp**	Japan	Mar	23,240	7	9,620	926	3.0[6]
39	24	**Kanematsu-Gosho Ltd**	Japan	Mar	21,160	8	8,661	618	3.5
138	144	**Toyota Tsusho Corp**[6]	Japan	Mar	8,335	31	2,741	1,166	1.6
140	115	**Kawasho Corp**[6]	Japan	Sept	8,310	5	3,945	534	1.6
206	263	**Hyundai Corp**	Korea	Dec	6,387	4	246	123	0.9
239	228	**Franz Haniel & Cie GmbH**	Germany	Dec	5,768	46	1,877	none[3]	18.7
258	259	**Kesko Group**	Finland	Dec	5,541	25	2,673	529	8.0
305	310	**Elders IXL Ltd**	Australia	June	4,833	232	6,961	2,710	26.7
316	302	**Lonrho Group**	UK	Sept	4,694	230	4,114	1,720	124.5
342	283	**Toshoku Ltd**	Japan	Oct	4,395	8	2,659	455	0.9
351	424	**Fletcher Challenge Ltd**	New Zealand	June	4,258	186	5,254	2,248	37.6
378	390	**Chori Co Ltd**	Japan	Mar	4,006	3	2,029	277	1.5[6]
387	353	**Itoman & Co Ltd**	Japan	Sept	3,886	19	5,523	876	1.4[6]
418	386	**Hanwa Co Ltd**[6]	Japan	Mar	3,615	47	4,090	2,293	1.1
457	418	**Inchcape Plc**	UK	Dec	3,341	127	2,149	1,002	44.4
496	455	**Shinsho Corp**[7]	Japan	Mar	3,062	2	1,320	459	1.0

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		TRANSPORTATION							
62	60	Deutsche Bundesbahn	Germany	Dec	$14,955	$–2,198	$45,182	none[3]	257.5
91	■	East Japan Railways	Japan	Mar	11,317	198	31,242	none[3]	89.5
94	91	SNCF	France	Dec	11,232	165	25,059	none[3]	218.2
197	229	Nippon Express Co Ltd	Japan	Mar	6,594	57	4,663	$7,949	45.6[6]
204	225	British Airways Plc	UK	Mar	6,395	257	5,839	1,954	44.0
216	216	Deutsche Lufthansa AG	Germany	Dec	6,156	50	5,574	1,859	46.6
261	282	Japan Air Lines Co Ltd	Japan	Mar	5,479	–47	6,655	14,432	22.4
264	294	Air France	France	Dec	5,455	203	4,572	none[3]	41.8
310	271	British Railways Board	UK	Mar	4,751	–123	3,777	none[3]	171.4
375	384	Danzas Group	Switzerland	Dec	4,024	6[6]	757[6]	none[3]	12.9
377	306	Nippon Yusen Kaisha Line	Japan	Mar	4,006	–22	5,621	4,230	3.6[6]
400	356	South African Transport Services	South Africa	Mar	3,754	71	9,975	none[3]	202.8
401	479	Kinki Nippon Railway Co Ltd	Japan	Mar	3,750	88	6,426	9,967	13.1[6]
412	416	SAS Group	Sweden	Sept	3,650	NA	3,041	none[3]	34.2
420	338	Canadian National Railway System	Canada	Dec	3,608	48	5,842	none[3]	50.9
476	■	All Nippon Airways Co Ltd	Japan	Mar	3,203	29	4,409	16,222	11.4[6]
495	■	Schweizerische Bundesbahnen-SBB	Switzerland	Dec	3,079	16	8,667	none[3]	37.2
		UTILITY							
27	32	Tokyo Electric Power Co[6]	Japan	Mar	24,434	1,186	66,411	54,753	39.3
31	31	Electricité de France	France	Dec	22,582	37	97,122	none[3]	123.8
50	45	The Electricity Council	UK	Mar	16,593	1,962	66,399[9]	none[3]	131.9
56	62	ENEL	Italy	Dec	15,427	103	46,428	none[3]	114.1
72	67	RWE Group	Germany	June	14,037	284	20,321	3,984	72.8
82	84	Kansai Electric Power Co[6]	Japan	Mar	12,802	840	33,487	19,967	24.6
85	75	British Gas Plc	UK	Mar	12,539	1,389	20,830	9,631	82.3
109	106	Chubu Electric Power[6]	Japan	Mar	10,372	1,007	24,408	14,756	20.0
129	137	Générale des Eaux Groupe	France	Dec	8,812	174	9,288	2,790	87.1
171	132	Gaz de France	France	Dec	7,189	11	11,290	none[3]	28.6
194	193	Tohoku Electric Power Co[6]	Japan	Mar	6,640	334	15,939	7,694	13.3
201	208	Kyushu Electric Power[6]	Japan	Mar	6,520	291	18,411	6,785	15.0
295	291	Chugoku Electric Power Co[6]	Japan	Mar	4,942	248	13,943	5,561	11.6
302	290	Korea Electric Power Corp	Korea	Dec	4,871	1	15,861	none[3]	30.3
313	329	Taiwan Power Co	Taiwan	June	4,724	1,095	18,027	none[3]	24.2
327	324	Tokyo Gas Co Ltd	Japan	Mar	4,569	411	5,372	15,663	13.0[6]
380	342	Ontario Hydro	Canada	Dec	3,982	204	25,125	none[3]	32.1
392	347	Hydro-Québec	Canada	Dec	3,842	383	24,357	none[3]	18.9
405	419	Osaka Gas Co Ltd	Japan	Mar	3,710	238	5,327	9,344	9.9[6]
441	470	Eskom	South Africa	Dec	3,462	345	15,880	none[3]	56.8
464	415	INTERCOM	Belgium	Dec	3,271	242	8,000	2,510	8.8[6]
493	498	Bayernwerk	Germany	Sept	3,094	109	11,635	none[3]	9.5
500	439	VEW-Vereinigte Elektrizitätswerke West	Germany	Dec	3,040	228	6,242	2,055	8.1

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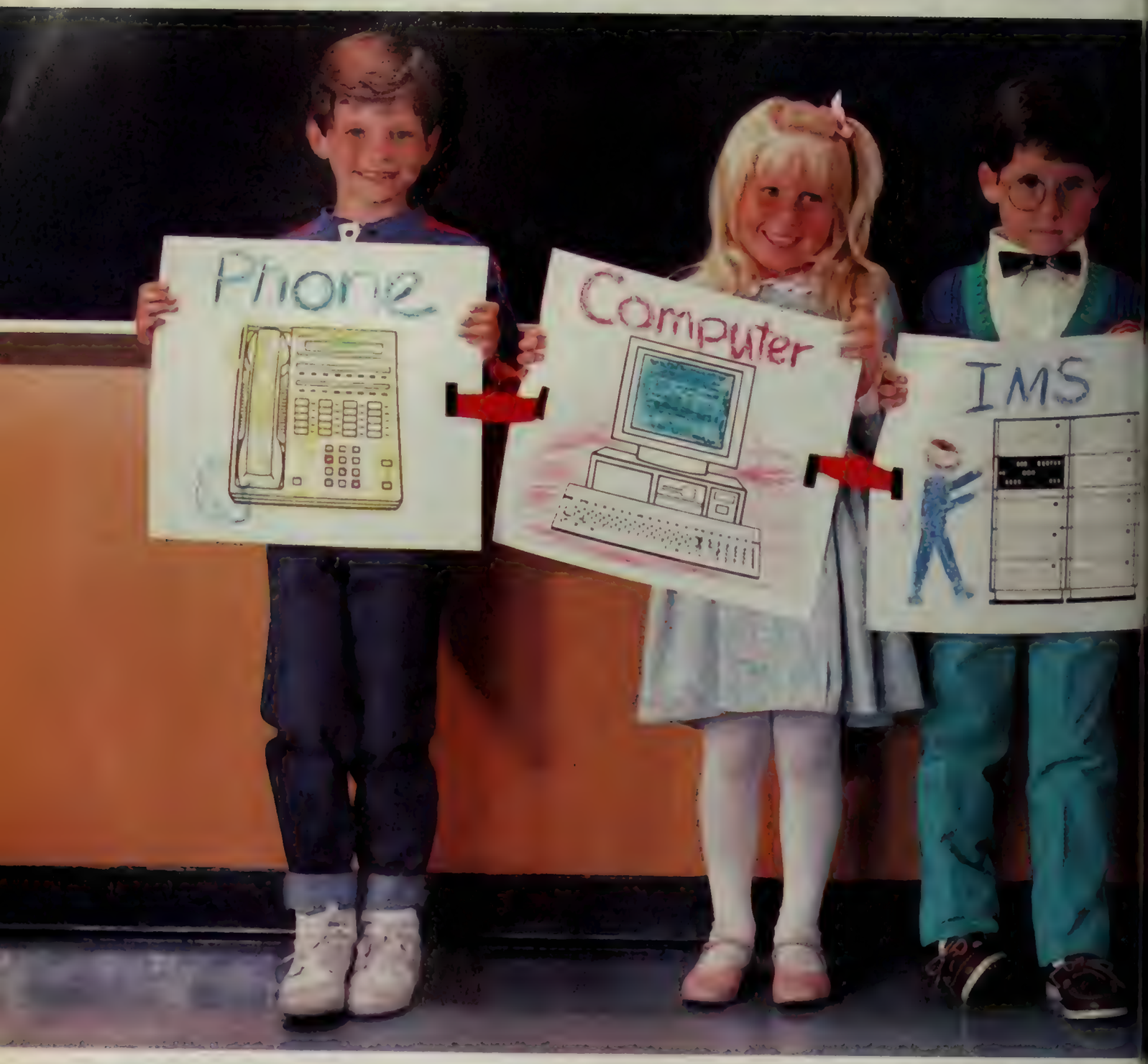

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Where to find the Forbes foreign 500

Company	Page
AEGON Insurance Group	219
Aérospatiale Group	209
AGF-Assurances Générales de France	219
Ahold	228
Air France	229
Aisin Seiki Co Ltd	209
Akzo Group	213
Alcan Aluminium Ltd	223
Aldi GmbH & Co KG	218
All Nippon Airways Co Ltd	229
Allianz Worldwide	219
Allied-Lyons Plc	213
Alusuisse	223
AMEV NV	219
Argyll Group Plc	228
Asahi Chemical Industry Co Ltd	213
Asahi Glass Co Ltd	209
Asahi Mutual Life Insurance	219
Asda Group Plc	228
Asea Brown Boveri Group	217
Asko Deutsche Kaufhaus AG	226
ASLK-CGER	210
Associated British Foods Plc	218
Australia & New Zealand Banking	210
Australian Mutual Provident Society	219
AXA Group	219
B.A.T Industries Plc	222
Bamerindus Group	210
Banamex-Banco Nacional de México	210
Banca Nazionale del Lavoro	210
Banco Bilbao-Vizcaya	210
Banco Central Group	210
Banco de la Nación Argentina	210
Banco de la Provincia de Buenos Aires	210
Banco di Napoli	210
Banco di Sicilia	210
Banco do Brasil	210
Banco Hispano Americano Grupo	210
Banco Itaú Group	210
Bancomer	210
BANESPA Group	210
Bank Bruxelles Lambert	210
Bank Hapoalim BM	210
Bank Leumi le-Israel BM	210
Bank of China	210
Bank of Montreal	210
Bank of Nova Scotia	210
Bank of Tokyo Ltd	210
Bank of Yokohama Ltd	210
Banque Nationale de Paris Group	210

Company	Page
Barclays Plc	210
Barlow Rand Group	222
BASF Group	213
Bass Plc	213
Bayer Group	213
Bayerische Hypotheken-und Wechsel	210
Bayerische Landesbank Girozentrale	210
Bayerische Vereinsbank Group	210
Bayernwerk	229
BCE Inc	216
Beecham Group Plc	217
S&W Berisford Plc	216
Bertelsmann Aktiengesellschaft	226
BICC Plc Group	217
BMW-Bayerische Motoren Werke	209
BOC Group Plc	219
Boots Co Plc	226
Robert Bosch Group	209
Bouygues Group	216
BRADESCO Group	210
C & A Brenninkmeyer	226
Bridgestone Corp	209
British Aerospace Plc	209
British Airways Plc	229
British Coal	222
British Gas Plc	229
British Petroleum Co Plc	223
British Post Office	216
British Railways Board	229
British Steel Corp	227
British Telecommunications Plc	216
Broken Hill Proprietary Co Ltd	227
BSN-Groupe	218
BTR Plc	222
Cadbury Schweppes Plc	218
Canadian Imperial Bank of Commerce	210
Canadian National Railway System	229
Canadian Pacific Ltd	222
Canon Inc	223
CARIPLO Group	210
Carnegie Group	218
Carrefour Group	228
Casino Groupe	218
CDF Chimie	213
CEA-Industrie Groupe	223
Chinese Petroleum Corporation	223
Chori Co Ltd	228
Chubu Electric Power	229
Chugoku Electric Power Co	229
CIBA-GEIGY Group	213

Company	Page
CIC-Crédit Industriel et Commercial	210
Co op AG	226
Co-operative Wholesale Society Ltd	218
Cockerill Sambre Groupe	227
Coles Myer Ltd	226
Commercial Union Assurance Co Plc	219
Commerzbank	210
Commonwealth Banking Corp Group	210
Coop Suisse	217
Cosmo Oil Co Ltd	223
Courtaulds Plc	213
CRA Limited	222
Crédit Agricole	210
Crédit Commercial de France Group	210
Crédit Communal de Belgique	210
Crédit Foncier de France	218
Crédit Lyonnais Group	210
Crédit Suisse	210
Crownx	219
CSR Group	222
Daewoo Group	222
Dai-Ichi Kangyo Bank Ltd	210
Dai-ichi Mutual Life Insurance	219
Dai Nippon Printing Co Ltd	226
Daiei Inc	226
Daihatsu Motor Co Ltd	209
Daimaru	226
Daimler-Benz Group	209
Daiwa Bank Ltd	210
Daiwa Securities Co Ltd	218
Dalgety Plc	218
Danzas Group	229
Dee Corporation Plc	228
Degussa AG	223
Delhaize "Le Lion" Group	228
Deutsche Bank Group	210
Deutsche Bundesbahn	229
Deutsche Bundespost	216
Deutsche Lufthansa AG	229
Deutsche SPAR-Zentrale	217
DG Bank Group	210
Docks de France	226
Dresdner Bank	210
NV DSM	213
East Japan Railways	229
Edeka-Zentrale	217
Eka Corporation	217
Elders IXL Ltd	228
Electricité de France	229
The Electricity Council	229

Enough cars to stretch bumper-to-bumper around the world four times is too much horsepower to ignore.

The 55.8 million smokers—like all Americans—love cars. In fact, smoker households own more than 35 million cars. Placed bumper-to-bumper, their cars would create a line approximately 100,000 miles long. And more than 5 million of the new automobiles sold last year were purchased by smokers and their families. America's smokers also buy American—fully 83% of their cars were made in the U.S.A. Smokers help keep America on the road to prosperity.

The American Smoker- an economic force.

PHILIP MORRIS
MAGAZINE

Presented by Philip Morris Magazine in the interest of America's 55.8 million smokers.

Source: The Roper Organization.

Where to find the Forbes foreign 500

Company	Page
Electrolux Group	217
Elf Aquitaine Group	223
ENEL	229
ENI-Ente Nazionale Idrocarburi	223
Telefonaktiebolaget LM Ericsson	216
Eskom	229
Euromarché SA	228
FDB Co-op Denmark	217
Feldmühle Nobel Group	222
Ferruzzi Group	216
Fiat Group	209
Fletcher Challenge Ltd	228
Formosa Plastics Group	213
Fuji Bank Ltd	210
Fuji Electric Co Ltd	217
Fuji Heavy Industries Ltd	209
Fuji Photo Film Co Ltd	217
Fujita Corp	216
Fujitsu Ltd	223
Furukawa Electric Co Ltd	217
GAN-Groupe des Assurances	219
Gaz de France	229
GB-Inno-BM	226
GEDELFI	217
General Accident Fire & Life Assurance	219
General Electric Co Plc	209
Générale Bank Group	210
Cie Générale d'Electricité	217
Générale des Eaux Groupe	229
Generali Group	219
George Weston Ltd	218
GKN Plc	209
Grand Metropolitan Plc	217
Great Universal Stores Plc	226
Great-West Lifeco	219
Guardian Royal Exchange Plc	219
Haci Ömer Sabanci Holding Corp	222
Franz Haniel & Cie GmbH	228
Hanson Plc	222
Hanwa Co Ltd	228
Henkel Group	213
Hillsdown Holdings Plc	218
Hitachi Ltd	222
Hoechst Group	213
Hoesch Group	227
Hokkaido Takushoku Bank Ltd	210
Philipp Holzmann AG	216
Honda Motor Co Ltd	209
Hoogovens Groep	227
Hudson's Bay Co	226

Company	Page
Hydro-Québec	229
Hyosung Group	222
Hyundai Corp	228
Hyundai Motor Co	209
ICA Group	218
Idemitsu Kosan Co Ltd	223
Imasco Ltd	226
Imperial Chemical Industries Plc	213
Inchcape Plc	228
Indian Oil Corp Ltd	223
Industrial Bank of Japan Ltd	210
INI Group	222
INTERCOM	229
International Thomson Organisation	222
IRI Group	222
Ishikawajima-Harima Heavy Industries	218
Isuzu Motors Ltd	209
Ito-Yokado Co Ltd	226
C Itoh & Co Ltd	228
Itoman & Co Ltd	228
Jacobs Suchard Group	218
Japan Air Lines Co Ltd	229
Japan Development Bank	210
Japan Tobacco	217
Jusco Co Ltd	226
Kajima Corp	216
Kanebo Ltd	228
Kanematsu-Gosho Ltd	228
Kansai Electric Power Co	229
Kao Corp	217
Karstadt Group	226
Kaufhof	226
Kawasaki Heavy Industries Ltd	222
Kawasaki Steel Corp	227
Kawasho Corp	228
Kesko Group	228
KF-Coop Group	217
Kinki Nippon Railway Co Ltd	229
Kirin Brewery Co Ltd	213
Klöckner & Co	222
Klöckner-Werke Group	227
Kobe Steel Ltd	227
Koç Group	222
Komatsu Ltd	218
Korea Electric Power Corp	229
Korea Explosives Group	222
Kredietbank NV	210
Krupp Group	227
Kubota Ltd	209
Kumagai Gumi Co Ltd	216

Company	Page
Kuwait Petroleum Corp	223
Kyodo Oil	223
Kyowa Bank Ltd	210
Kyushu Electric Power	229
L'Aire Liquide Group	219
L'Oréal Group	217
John Labatt	218
Ladbroke Group Plc	222
Lafarge Coppée	213
Leclerc	217
Legal & General Group	219
Littlewoods Organisation Plc	226
Lloyds Bank Group	210
Long-Term Credit Bank of Japan Ltd	210
Lonrho Group	228
Lucky-Gold Star Group	222
M A N Group	218
Mannesmann Group	218
Manufacturers Life Insurance Co	219
Marks & Spencer Plc	226
Marubeni Corp	228
Marui	226
Matsushita Electric Industrial Co	217
Matsushita Electric Works	217
Mazda Motor Corp	209
MBB-Messerschmitt-Bolkow-Blohm	209
Meiji Mutual Life Insurance Co	219
Metallgesellschaft AG	223
Metro-Deutschland Gruppe	217
Michelin Group	209
Midland Group	210
Migros-Genossenschafts-Bund	217
Mitsubishi Bank Ltd	210
Mitsubishi Corp	228
Mitsubishi Electric Corp	222
Mitsubishi Heavy Industries Ltd	218
Mitsubishi Kasei Corp	213
Mitsubishi Metal Corp	223
Mitsubishi Oil Co Ltd	223
Mitsubishi Trust & Banking Corp	210
Mitsui & Co Ltd	228
Mitsui Bank Ltd	210
Mitsui Mutual Life Insurance Co	219
Mitsui Real Estate Development Co Ltd	216
Mitsui Trust & Banking Co Ltd	210
Mitsukoshi	226
Monte dei Paschi di Siena Banking	210
Montedison Group	213
Münchener Rückversicherungs	219
Nacional Financiera SNC	210

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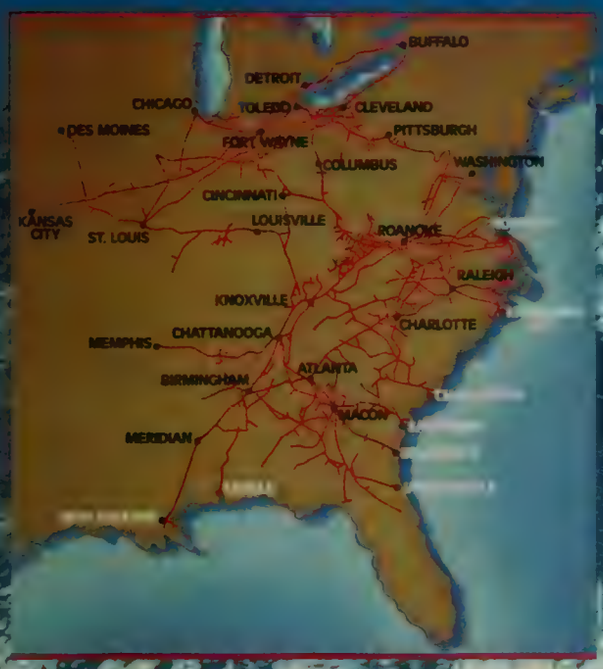

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Where to find the Forbes foreign 500

Company	Page
National Australia Bank Group	210
National Westminster Bank Plc	210
Nationale-Nederlanden	219
NEC Corp	223
Nederlandse Gasunie Group	223
Neste Group	223
Nestlé	218
Netherlands PTT	216
News Corporation Ltd	226
Nichii Co Ltd	226
Nichimen Corp	228
Nippon Credit Bank Ltd	210
Nippon Express Co Ltd	229
Nippon Life Insurance Co	219
Nippon Mining Co Ltd	223
Nippon Oil Co Ltd	223
Nippon Steel Corp	227
Nippon Suisan Kaisha Ltd	218
Nippon Telegraph & Telephone Corp	216
Nippon Yusen Kaisha Line	229
Nippondenso Co Ltd	209
Nissan Fire & Marine Insurance	219
Nissan Motor Co Ltd	209
Nissho Iwai Corp	228
NKK Corp	227
Oy Nokia	222
Nomura Securities Co Ltd	218
Noranda	226
Norddeutsche Landesbank Group	210
Norinchukin Bank	210
Norsk Hydro a s	222
Ohbayashi Corp	216
ÖIAG-Österreichische Industrie	222
Oji Paper Co Ltd	226
Olivetti Group	223
Ontario Hydro	229
Osaka Gas Co Ltd	229
Österreichische PTT	216
Otto Versand-Group	226
Paribas Group	210
Pechiney	223
Pemex-Petróleos Mexicanos	223
Peninsular & Oriental Steam	222
Petro-Canada	223
Petrobras-Petroleo Brasileiro SA	223
Petrofina SA	223
Petróleos de Venezuela SA	223
Peugeot Groupe SA	209
Philips Group	217
Pilkington Plc	213

Company	Page
Pirelli Group	209
PKbanken Group	210
Pohang Iron & Steel Co Ltd	227
Preussag Group	222
Promodès Group	228
Provigo Inc	218
Prudential Corp Plc	219
PTT-Postes et Télécommunications	216
Reed International Plc	226
Renault Group	209
Repsol SA	223
REWE-Zentral Organisation	217
Rhône-Poulenc Group	213
Ricoh Co Ltd	223
Roche/Sapac Group	213
Rolls-Royce Plc	209
Rover Group Plc	209
Royal Bank of Canada	210
Royal Dutch/Shell Group	223
Royal Insurance Plc	219
RTZ Corporation Plc	223
Ruhrgas	223
Ruhrkohle	222
RWE Group	229
S Group	217
Saab-Scania Group	209
Saarberg Group	222
Saatchi & Saatchi Plc	226
J Sainsbury Plc	228
Saint-Gobain	213
Saitama Bank Ltd	210
Salzgitter	227
Samsung Group	222
Sandoz Group	213
Sanpaolo Group	210
Sanwa Bank Ltd	210
Sanyo Electric Co Ltd	217
SAS Group	229
Schlumberger Ltd	223
Schweizerische Bundesbahnen-SBB	229
Schweizerische PTT	216
Sears Plc	226
Seiyu Ltd	226
Sekisui House Ltd	216
Sharp Corp	217
Shimizu Construction Co Ltd	216
Shinsho Corp	228
Shoko Chukin Bank	210
Showa Denko KK	213
SHV Holdings NV	222

Company	Page
Siderbrás Group	227
Siemens Group	217
Skandinaviska Enskilda Bank Group	210
Skanska AB	216
SKF Group	218
SNCF	229
Snow Brand Milk Products Co Ltd	218
Société Générale Group	210
Solvay Group	213
Sony Corp	217
South African Transport Services	229
Ssangyong Group	222
Standard Chartered Group	210
Standard Life Assurance Co	219
State Bank of India Group	210
Statoil Group	223
STC Group Plc	216
Steel Authority of India Ltd	227
Steinberg Inc	228
Stora Group	226
Groupe Sucres et Denrées	216
Suez Group	210
Sulzer Group	218
Sumitomo Bank Ltd	210
Sumitomo Chemical Co Ltd	213
Sumitomo Corp	228
Sumitomo Electric Industries Ltd	217
Sumitomo Life Insurance Co	219
Sumitomo Metal Industries Ltd	227
Sumitomo Metal Mining Co Ltd	223
Sumitomo Trust & Banking Co Ltd	210
Sun Alliance & London Insurance Plc	219
Sun Life Assurance Co	219
Sunkyong Group	222
Suntory Ltd	213
Suzuki Motor Co Ltd	209
Swedish Telecom Group	216
Swiss Bank Corp	210
Swiss Life Insurance & Pension Co	219
Swiss Re Group	219
Systeme U	217
Taisei Corp	216
Taiwan Power Co	229
Taiyo Fishery Co Ltd	218
Taiyo Kobe Bank Ltd	210
Takashimaya Co Ltd	226
Takeda Chemical Industries Ltd	213
Takenaka Corp	216
Tarmac Plc	216
Teijin Ltd	228

Company	Page
Telefónica	216
Tengelmann Group	228
Tesco Plc	228
Le Groupe Thomson	217
THORN EMI Plc	217
Thyssen Group	222
Toa Nenryo Kogyo KK	223
Alfred C Toepfer Internationale Gruppe	216
Tohoku Electric Power Co	229
Tokai Bank Ltd	210
Tokio Marine & Fire Insurance Co Ltd	219
Tokyo Electric Power Co	229
Tokyo Gas Co Ltd	229
Toppan Printing Co Ltd	226
Toray Industries	228
Toronto-Dominion Bank	210
Toshiba Corp	222
Toshoku Ltd	228
TOTAL Group-Française des Pétroles	223
Toyo Menka Kaisha Ltd	228
Toyo Seikan Kaisha Ltd	226
Toyota Motor Corp	209
Toyota Tsusho Corp	228
Trafalgar House Plc	216
Türkiye Petrolleri AO	223
UAP-Union des Assurances de Paris	219
Ube Industries Ltd	213
Unibanco Group	210
Unigate Group	218
Unilever	218
Union Bank of Switzerland	210
Uny Co Ltd	226
Groupe Usinor Sacilor	227
VEBA Group	222
Vendex International Group	226
VEW-Vereinigte Elektrizitätswerke	229
VIAG Group	222
Volkswagen Group	209
Volvo Group	209
Westdeutsche Landesbank Group	210
Westpac Banking Group	210
Winterthur Group	219
Woolworth Holdings Plc	226
Woolworths Ltd	226
YPF-Yacimientos Petrolíferos Fiscales	223
Yasuda Fire & Marine Insurance Co Ltd	219
Yasuda Mutual Life Insurance Co	219
Yasuda Trust & Banking Co Ltd	210
Zenkyoren	219
Zurich Insurance Group	219

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- Samsung Foundation of Art & Culture

THE 100 LARGEST FOREIGN INVESTMENTS IN THE U.S.

A record $195 billion poured into the U.S. from overseas investors last year, according to the latest Department of Commerce figures. Some $153 billion flowed into bank deposits and the purchase of Treasurys, corporate bonds and other financial assets. But lured by the cheap dollar, political stability and sharply lower stock prices, foreigners spent a record $42 billion on American plant, equipment, services and real estate last year. The figure was up 68% over 1986.

Some of the biggest direct investment deals involved further consolidation of foreign ownership. The largest was British Petroleum's $7.8 billion acquisition in May 1987 of the remaining 45% of Standard Oil.

When they buy, foreigners tend to buy big, well-known companies and tend not to haggle overmuch on price. According to *Mergers & Acquisitions* magazine, foreigners accounted for less than 9% of the number of U.S. mergers, acquisitions and LBOs in 1987, but 25% of the dollar value. Examples include Campeau Corp.'s purchase of Federated Department Stores, Seagram's acquisition of Tropicana Products and the purchase of Firestone Tire & Rubber by Japan's Bridgestone.

Foreign capital inflows are likely to continue at 1987's record rate. Though it has recovered somewhat, the dollar is still cheap by historical standards. Foreigners, moreover, often have more faith in the U.S. economy than Americans do.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue (mil)	Net income (mil)	Assets (mil)
1	**Seagram Co Ltd***	Canada	El du Pont de Nemours*	23%	chemicals, energy	$30,224	$1,786.0	$28,209
			Joseph E Seagram & Sons[1]	100	alcoholic beverages	2,440	41.8	3,140
			Tropicana Products	100	beverages	750	NA	NA
						33,414		
2	**Royal Dutch/Shell Group***	Netherlands/ UK	Shell Oil	100	energy, chemicals	20,852	1,230.0	26,937
3	**British Petroleum Plc***	UK	BP America	100	energy	14,611	564.0	23,287
4	**Campeau**	Canada	Allied Stores	100	retailing	2,863[2]	NA	NA
			Federated Dept Stores*	98	retailing	11,118[3]	313.0[3]	6,009[3]
						13,981		
5	**Tengelmann Group**	Germany	Great A&P Tea*	53	supermarkets	9,532	103.4	2,243
6	**B.A.T Industries Plc***	UK	BATUS	100	multicompany	5,835	466.2	4,638
	Imasco Ltd*	Canada	Peoples Drug Stores	100	drugstores	1,396	NA	NA
			Imasco USA	100	fast food	1,360	NA	NA
						8,591		
7	**Unilever NV***	Netherlands	Chesebrough Pond's	100	personal care	1,087	76.2	NA
	Unilever Plc*	UK	Lever Brothers	100	consumer goods	2,856	7.0	1,011
			Thomas J Lipton	100	food & beverages	1,413	108.6	851
			National Starch & Chem	100	adhesives, starch	1,208	92.2	941
						6,564		
8	**Nestlé***	Switzerland	Nestlé Enterprises	100	food, restaurants	3,500	NA	NA
			Carnation	100	food	2,600	NA	NA
			Alcon Laboratories	100	optical products	450	NA	NA
						6,550		
9	**Hanson Plc***	UK	Hanson USA	100	multicompany	3,598	229.0	2,934
			Kidde	100	multicompany	2,681	44.0	1,843
						6,279		
10	**Petroleos de Venezuela, SA**	Venezuela	Citgo Petroleum	50	refining, marketing	3,938	85.7	1,191
			Champlin Refining	50	refining, marketing	1,555	NA	500E
						5,493		
11	**NV Philips***	Netherlands	North American Philips	100	electronics	5,059	–34.1	3,412
12	**Hoechst AG***	Germany	Hoechst Celanese	100	chemicals	4,596	169.0	5,388
13	**BASF Group***	Germany	BASF	100	chemicals	4,334	130.7	2,558
14	**Bayer AG***	Germany	Bayer USA	100	chemicals	3,392	107.3	2,554
			Agfa-Gevaert	100	photography	807	15.8	573
			Compugraphic*	84	computer typesetting	4,199		

[illegible] ended in the U.S. in shares or ADRs. E Estimate. NA Not available. [illegible] including interest in Du Pont, net income is $418.4 million, assets are $6,727 [illegible] divestitures. [illegible] includes divisions sold to R.H. Macy and Mas Department Stores. Note: Some foreign investors on the list own U.S. companies through [illegible] subsidiaries or affiliates.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue (mil)	Net income (mil)	Assets (mil)
15	**Tate & Lyle Plc**	UK	Staley Continental	100%	food distr, processors	$3,374	$54.8	$1,832
			Pacific Molasses	100	molasses, animal feeds			
			Refined Sugars	100	sugar refining	695	20.5E	NA
			Other companies	100	sugar processing			
						4,069		
16	**Bridgestone**	Japan	Firestone Tire & Rubber	100	tire & rubber	3,867	123.0	2,921
17	**Anglo Amer of S Africa***	South Africa	Engelhard*	30	metals	2,479	69.8	1,216
	Minerals & Resources*	Bermuda	Inspiration Resources*	56	agricultural, mining	1,243	9.7	895
	Charter Consol*	UK	Natl Mine Service*	51	mining equipment	59	0.2	34
						3,781		
18	**BCE*†**	Canada	BCE Development US	100	real estate	146	NA	2,000
	Northern Telecom Ltd*	Canada	Northern Telecom	100	telecommunications	2,997	NA	1,807
	Trans Canada Pipeline*	Canada	Great Lakes Gas Trans	50	gas transmission	261	42.8	339
			Northern Border Pipeline	30	gas transmission	232	60.9	1,081
						3,636		
19	**Ahold NV***	Netherlands	BI-LO	100	supermarkets	1,219	NA	363
			Giant Food Stores	100	supermarkets	618	NA	133
			First National Supermkts	80	supermarkets	1,600	NA	NA
						3,437		
20	**Electrolux AB***	Sweden	White Consolidated	100	appliances	3,419	NA	2,248
21	**CS Holding**	Switzerland						
	Financière CSFB	Switzerland	First Boston*	39	investment banking	3,405	108.9	36,148
22	**Imperial Chemical**	UK	ICI Americas	100	chemicals, drugs, paint	3,040	NA	3,000
	Industries Plc*		Stauffer Chemical	100	agrochemicals	280	NA	400
						3,320		
23	**Brascan Ltd***	Canada						
	Noranda	Canada	Noranda US	100	minerals, forest prods	1,748	NA	1,691
	John Labatt Ltd	Canada	Johanna Farms	100	dairy, juice products	1,504	NA	713
			Other companies	100	package foods, brewing			
						3,252		
24	**Volkswagenwerk AG***	Germany	Volkswagen of America	100	automotive	3,235	NA	NA
25	**Group Bruxelles Lambert**	Belgium	Drexel Burnham Lambert	26	finance	3,200	NA	35,872
26	**Vendex International**	Netherlands	Dillard Dept Stores*	45	retailing	2,206	91.2	1,498
			Barnes & Noble College	30	retailing	950	NA	NA
			Dalton	50	retailing			
						3,156		
27	**Franz Haniel & Cie**	Germany	Scrivner	100	food distribution	3,100	15.0E	450E
28	**Fujitsu Ltd***	Japan	Amdahl*	45	electronics	1,505	142.0	1,508
			Fujitsu America	100	electronics	1,210	NA	NA
			Fujitsu Microelectronics	100	electronics	363	16.0E	146
						3,078		
29	**Thomson SA**	France	Thomson Consumer Elec	100	consumer electronics	3,000	NA	NA
30	**Jefferson Smurfit Group Plc**	Ireland						
	Smurfit Intl BV	Netherlands	Jefferson Smurfit*	78	packaging	1,099	92.0	691
			Container Corp of Am	50	paper products	1,894	87.1	1,452
						2,993		
31	**Delhaize "Le Lion" SA**	Belgium	Food Lion*	44	supermarkets	2,954	85.8	806
32	**Honda Motor Co Ltd***	Japan	Honda of America Mfg	100	automotive	2,850E	NA	NA
33	**George Weston Ltd***	Canada	Stroehmann Bakeries	100	bakery			
			Interbake Foods	100	bakery	555	NA	72
			Eastern Fine Paper	100	paper products			
	Loblaw Cos*	Canada	Peter J Schmitt	100	food wholesaling	1,071	NA	NA
			National Tea	100	supermarkets	1,146	NA	NA
						2,772		

*Publicly traded in the U.S. in shares or ADRs. E: Estimate NA: Not available. †Formerly Bell Canada Enterprises. Note: Some foreign investors on the list own U.S. companies indirectly through companies in italics.

The 100 largest foreign investments in the U.S.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue (mil)	Net income (mil)	Assets (mil)
34	**Siemens AG***	Germany	Siemens Capital	100%	electronics	$2,760	$–244.0	$3,055
35	**CIBA-GEIGY Ltd**	Switzerland	CIBA-GEIGY	100	chemicals, drugs	2,731	NA	2,600
36	**Sony Corp***	Japan	Sony Corp (US)	100	consumer electronics	1,000E	NA	NA
			CBS Records	100	records	1,548	131.7	NA
						2,548E		
37	**Nippon Kokan***	Japan	National Steel	50	steel	2,417	45.8	1,689
			Int'l Light Metals	40	aluminum, titanium	98	–3.0	149
						2,515		
38	**Grand Metropolitan Ltd***	UK	GrandMet Consumer Prods	100	consumer products	990	NA	NA
			Heublein	100	alcoholic beverages	1,500	NA	NA
						2,490		
39	**Petrofina SA**	Belgium	American Petrofina*	83	energy	2,484	83.3	1,836
40	**Royal Insurance Plc**	UK	Royal USA	100	insurance	2,452	115.6	4,455
41	**Hongkong & Shanghai Banking Corp***	Hong Kong	Marine Midland Banks	100	banking	2,444	–408.8	25,453
42	**RTZ Plc***	UK	US Borax & Chemical	100	mining, borax			
			US Silica	100	sand, clays	1,561	151.8	992
			Commonwealth Aluminum	33	aluminum			
	RTZ Pillar Ltd	UK	Indal US	100	building products	453	NA	300E
	Rio Algom Ltd	Canada	Rio Algom	100	metals	350E	NA	NA
						2,364E		
43	**Power Corp of Canada**	Canada	Great-West Life Assur	97	insurance	2,237	–24.0	7,056
44	**Dalgety Plc**	UK	Martin-Brower	100	food distribution	2,217	NA	NA
			Modern Maid Food	100	food products			
45	**Alcan Aluminium Ltd***	Canada	Alcan Aluminum	100	aluminum	2,181	27.0	1,145
46	**Compagnies des Machines Bull***	France	Honeywell Bull	43	information systems	2,060	17.4	NA
47	**Crownx**	Canada	Crown Life Insurance	94	insurance	1,633	NA	3,686
			Extendicare Group	100	health care	313	NA	NA
						1,946		
48	**News Corporation Ltd***	Australia	News America	100	media	1,891	NA	4,244
49	**Régie Nationale des Usines Renault**	France	Mack Trucks*	44	automotive	1,858	3.8	1,011
50	**Henkel KGaA**	Germany	Clorox*	26	household products	1,126	104.9	933
			Loctite	25	chemicals	338	30.0	NA
			Henkel of America	100	chemicals	392	NA	NA
						1,856		
51	**Dainippon Ink and Chemicals**	Japan	Reichhold Chemicals	100	chemicals	774	NA	NA
			Sun Chemical	100	printing, chemicals	800E	NA	NA
			Polychrome	100	printing	277	8.1	256
						1,851E		
52	**AEGON NV***	Netherlands	Life Investors	100	insurance	1,419	32.7	3,759
			Monumental	100	insurance	263	NA	1,327
			National Old Line	100	insurance	106	5.0	427
			AEGON Reinsurance	100	insurance	44	–28.6	138
						1,832		
53	**Bertelsmann AG**	Germany	RCA, Arista	100	records			
			Doubleday Mfg	100	printing			
			Offset Paperback Mfrs	100	printing	1,800	NA	NA
			Bantam, Doubleday, Dell	100	publishing			
54	**Total CFP**	France	Total Energy Resources	100	energy	85	–59.1	NA
	Total Petrol NA Ltd*	Canada	Total Petroleum	100	energy	1,703	–35.7	878
						1,788		

*Publicly traded [illegible] shares or ADRs. E Estimate. NA Not available. Note: Some foreign investors on the list own U.S. companies indirectly through companies in italics.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue (mil)	Net income (mil)	Assets (mil)
55	**Daimler-Benz Group***	Germany	Freightliner	100%	automotive	$1,513	NA	NA
	AEG AG*	Germany	AEG	100	elec equip, electronics	250	NA	NA
			Other companies	100	elec equip, computers			
						1,763		
56	**Canadian Pacific Ltd***	Canada	Canadian Pacific USA	100	transportation, steel	400E	NA	$1,200E
			Soo Line*	56	railroad	613	$–8.5	922
	AMCA Intl Ltd*	Canada	AMCA US	100	industrial machinery	749	NA	352
						1,762		
57	**Manufacturers Life Insurance**	Canada	Manufacturers Life Ins	100	insurance	1,700E	NA	NA
58	**Saban SA**	Switzerland	Republic NY*	33	banking	1,665	33.0	22,388
59	**Prudential Corporation Plc***	UK	Jackson National Life	100	insurance	1,626	25.2	3,643
60	**Nissan Motor Co Ltd***	Japan	Nissan Motor Mfg USA	100	automotive	1,586	NA	NA
61	**Montedison Group***	Italy	Himont*	81	chemicals	1,165	226.9	1,512
	Ausimont NV*	Netherlands	Erbamont	72	pharmaceuticals	220	NA	277
			Ausimont Industries	74	chemicals	117	NA	NA
			Conserv	100	agroindustry	77	2.1	38
						1,579		
62	**Beazer Plc**	UK	Koppers*	96	const materials, chem	1,516	10.8	1,075
63	**Zurich Insurance Group**	Switzerland	Zurich-American Ins	100	insurance	895	113.7	2,176
			Universal Underwriters	100	insurance	553	69.7	823
			Other companies	100	insurance	68	6.1	125
						1,516		
64	**National Westminster Bank Plc***	UK	National Westminster Bank US	100	banking	1,055	–212.0	11,539
			National Westminster Bank NJ	100	banking	457	42.0	4,895
						1,512		
65	**Volvo AB***	Sweden	Volvo White Truck	100	automotive	1,089	14.4	911
			VME America's	25	automotive	420	NA	250
						1,509		
66	**General Accident Fire & Life Plc**	Scotland	Gen Accident Corp of Am	100	insurance	1,504	98.0	3,652
67	**Roche/Sapac**	Switzerland	Hoffmann-La Roche	100	drugs, chemicals	1,500	NA	NA
68	**Nationale-Nederlanden NV**	Netherlands	Nationale-Nederlanden US	100	insurance	1,490	62.7	4,136
69	**Sandoz Ltd**	Switzerland	Sandoz United States	100	chemicals, drugs	1,473	NA	NA
70	**TBG Holding NV**	Netherlands	Ball-InCon Glass	50	containers, packaging	550	NA	NA
			Peerless Pump	100	pumps			
			Info Technology Group	100	electronic information	900	NA	NA
						1,450		
71	**Moore Corp Ltd***	Canada	Moore Business Forms	100	business forms	1,425	NA	813
72	**Carrefour**	France	Costco Wholesale*	21	retailing	1,401	5.1	373
73	**BTR Plc***	UK	BTR Dunlop	100	energy, construction	1,400E	NA	NA
74	**Rhône-Poulenc Group**	France	Rhône-Poulenc	100	chemicals	832	NA	1,300
			Stauffer (basic chemical)	100	chemicals	550E	NA	600E
						1,382E		
75	**Thyssen Group**	Germany	Budd	100	auto parts	1,359	NA	NA
76	**Akzo NV***	Netherlands	Akzo America Inc	100	multicompany	1,053	NA	NA
			Stauffer (specialty chem)	100	chemicals	300E	NA	225E
						1,353E		

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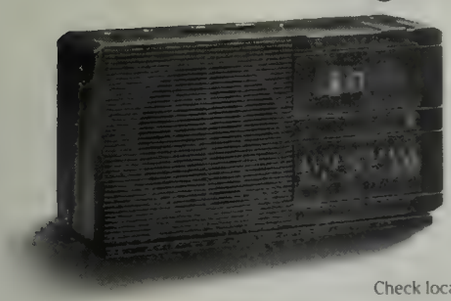

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NATIONAL PUBLIC RADIO NEWS

The 100 largest foreign investments in the U.S.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue (mil)	Net income (mil)	Assets (mil)
77	SNECMA	France	CFM International	50%	aviation	$1,347	$1.2	$635
78	BOC Group Plc*	UK	BOC Group	100	gases & health care	1,334	57.9	1,513
79	Toyota Motor Corp*	Japan	New United Motor Mfg	50	automotive	1,300E	NA	NA
80	Consolidated Gold Fields Plc*	UK	Newmont Mining*	49	mining	514	337.6	1,964
			Gold Fields American	100	natural resources	412	96.4	1,160
			ARC America	100	construction materials	333	NA	NA
						1,259		
81	Commercial Union Assurance Plc	UK	Commercial Union	100	insurance	1,243	40.1	2,872
82	Pechiney	France	Howmet	100	gas turbines	1,235	NA	1,168
			Other companies	100	aluminum			
83	J Sainsbury Plc*	UK	Shaw's Supermarkets	100	supermarkets	1,235	NA	NA
84	Kuwait Petroleum	Kuwait	Santa Fe Intl (KPC)	100	energy	1,201	–357.8	3,695
85	Continental AG	Germany	General Tire	100	tire	1,200E	NA	700E
86	Bond Corporation Holdings	Australia	G Heileman Brewing	100	alcoholic beverages	1,200E	NA	NA
87	Schlumberger NV*	Neth Antilles	Schlumberger Technology	100	oilfield svs, electron	1,183	–93.0	1,246
88	Elf Aquitaine Group	France	Elf Aquitaine	100	multicompany	1,179	NA	3,141
89	Olympia & York Developments Ltd	Canada	Landmark Land*	25	real estate	263	–47.5	2,134
			Abitibi-Price*	78	forest products	520	NA	231
	Trizec	Canada	Rouse*	23	property dev, banking	388	11.9	1,741
						1,171		
90	General Electric Plc*	UK	Picker International	100	medical equipment	770E	NA	NA
			AB Dick	100	office equipment	400E	NA	NA
						1,170E		
91	Saint-Gobain	France	CertainTeed	100	building supplies	1,158	61.4	856
92	Sun Life Assurance Co of Canada	Canada	Sun Life (US)	100	insurance	913	–8.8	3,393
			Other companies	100	financial services	233	14.9	586
						1,146		
93	NV AMEV	Netherlands	AMEV Holdings Inc	100	insurance	1,136	16.8	2,255
94	United Biscuits (Holdings) Plc	UK	Keebler	100	bakery	1,127	NA	255
95	Hachette SA	France	Grolier	100	publishing	424	15.5	444
			Curtis Circulation	100	publishing	398	NA	NA
			Diamandis Communications	100	magazine publishing	300	NA	NA
						1,122		
96	Broken Hill Proprietary*	Australia	Utah International	100	mining	800E	NA	NA
			BHP Petroleum (Americas)	100	energy			
			Hamilton Oil*	51	energy	321	21.9	955
						1,121E		
97	Pakhoed Holding	Netherlands	Univar*	35	chemicals	1,117	11.2	395
98	Siebe Plc	UK	Robertshaw Controls	100	auto controls	1,111	NA	NA
			Ranco	100	electrical equipment			
			Siebe North	100	safety equipment			
			Barber-Colman	100	building controls			
99	Beecham Group Plc*	UK	Beecham	100	drugs, consumer prods	1,100	NA	1,050
			Beecham Cosmetics	100	cosmetics, fragrances			
			Beecham Home Improv Prod	100	home improvement			
			Norcliff Thayer	100	drugs			
100	Robert Bosch, GmbH	Germany	Robert Bosch	100	auto parts, machinery	1,100	NA	NA

*Publicly traded in the U.S. in shares or ADRs. E Estimate. NA Not available. Note: Some foreign investors on the list own U.S. companies indirectly through companies in tables.

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THE 100 LARGEST U.S. MULTINATIONALS

Even among leftists, "multinational" is no longer a dirty word. As influential development economist Ralph Buultjens explains: "Within the past two or three years, major Marxist countries have discovered the virtues of multinational capitalism in reviving their stagnant economies" (FORBES, *June 27*). This changing mood—and, of course, the falling dollar—has helped these 100 largest U.S. multinationals recapture market share. Last year alone their aggregate sales climbed nearly 15%.

A number of these companies show healthy earnings leverage. Coca-Cola, for instance, has 26% of its assets outside the U.S., but the firm's $1.1 billion foreign operating profit represents 74% of total operating profits. Control Data earned 84.2% of its operating profits in foreign operations yet tied up only 27.6% of its assets overseas.

To rank as one of the 100 largest U.S. multinationals, a corporation had to generate foreign revenues in excess of $1 billion in 1987. Thirteen of the companies below derive more than half of their revenues overseas. The leaders are Exxon, 75.1%; Pan Am, 67.8%; and Gillette at 63.2%.

Others are catching up as "overseas" becomes synonymous with "growth potential." McDonald's, for example, is following PepsiCo and Coca-Cola in spreading American tastes throughout the world. Last year almost 30% of the fast-food giant's $4.9 billion total sales came from foreign operations, up from 23% in 1984.

Strong growth in the OECD countries continues to confound the economists. For 1988, OECD economists recently raised their growth forecast to 3%. But protectionism and other exogenous factors are always potentially dangerous. "The current trade bill will not have a cosmic impact on world trade," says Julie Sedky, vice president of Washington Analysis Corp./County Securities U.S.A., a division of the U.K.'s National Westminster Bank. But Sedky does worry that if President Reagan and Congress cannot reach a compromise on the existing bill, "we will get a more protectionist trade bill next year."

The fondness for Marxist solutions to economic problems in the developing world is still a threat, but a diminishing one. "Third World countries increasingly are realizing," says economist Buultjens, "that multinationals are one of the few sources of capital, technology and management skills that can be introduced with speed and without bureaucracy into their own economic arena."

1987 rank	Company	Foreign revenue (mil)	Total revenue (mil)	Foreign revenue as % of total	Foreign operating profit (mil)	Total operating profit (mil)	Foreign operating profit as % of total	Foreign assets (mil)	Total assets (mil)	Foreign assets as % of total
1	Exxon	$57,375	$76,416	75.1%	$3,301[1]	$4,840[1]	68.2%	$37,742	$74,042	51.0%
2	Mobil	31,633[2]	52,256[2]	60.5	1,238[3]	2,033[3]	60.9	20,110	41,140	48.9
3	IBM	29,280	54,217	54.0	3,330[1]	5,258[1]	63.3	34,468	63,688	54.1
4	General Motors	24,091	101,782	23.7	1,919[1]	3,551[1]	54.0	20,389	87,241	23.4
5	Ford Motor[4]	23,955	73,145	32.8	1,184[1]	4,625[1]	25.6	24,077	61,090	39.4
6	Texaco	17,120	34,372	49.8	863	–1,128	P-D	10,550	33,962	31.1
7	Citicorp	13,314	27,519	48.4	–2,293[1]	–1,138[1]	201.5	89,675[5]	198,683[5]	45.1
8	El du Pont de Nemours	11,651[6]	30,468[6]	38.2	682[7]	2,100[7]	32.5	7,757	28,209	27.5
9	Dow Chemical	7,431	13,377	55.6	1,278	2,315	55.2	7,037	14,356	49.0
10	Chevron	5,905	26,015	22.7	2,006	3,313	60.5	6,947	34,465	20.2
11	Procter & Gamble	5,524	17,000	32.5	95[1]	327[1]	29.1	3,849	13,715	28.1
12	Eastman Kodak	5,265	13,305	39.6	815	2,132	38.2	5,014	14,451	34.7
13	Chase Manhattan	5,021	10,745	46.7	–1,438[1]	–895[1]	160.7	37,280	99,130	37.6
14	ITT[4]	4,891	19,525	25.0	384	1,278	30.0	5,908	39,983	14.8
15	Xerox[4]	4,852[2]	15,125[2]	32.1	182	575	31.7	5,691	23,462	24.3
16	United Technologies	4,713	17,170	27.4	252[1]	592[1]	42.6	3,913	11,929	32.8
17	Philip Morris	4,544	22,279	20.4	436	4,067	10.7	3,774	19,145	19.7
18	Amoco	4,400[2]	20,477[2]	21.5	517[1]	1,360[1]	38.0	5,734	24,827	23.1
19	Digital Equipment	4,373	9,389	46.6	913	1,672	54.6	3,089	8,407	36.7
20	Unisys	4,237	9,713	43.6	400	1,432	27.9	2,865	9,958	28.8

[1]Net income. [2]Includes other income. [3]Net income before corporate and net financing expenses. [4]Includes proportionate interest in unconsolidated subsidiaries and affiliates. [5]Average assets. [6]Includes excise taxes. [7]Operating income after taxes. [8]Includes export sales. [9]Pretax income. [10]Net income from continuing operations. [11]Net income before corporate expenses. D-P Deficit over profit. P-D Profit over deficit. NA Not available.

1987 rank	Company	Foreign revenue (mil)	Total revenue (mil)	Foreign revenue as % of total	Foreign operating profit (mil)	Total operating profit (mil)	Foreign operating profit as % of total	Foreign assets (mil)	Total assets (mil)	Foreign assets as % of total
21	Coca-Cola	$4,185	$7,644	54.7%	$1,115	$1,499	74.4%	$2,176	$8,356	26.0%
22	RJR Nabisco	4,045	15,766	25.7	396	2,486	15.9	4,444	16,861	26.4
23	Goodyear	3,997	9,905	40.4	459	1,076	42.7	2,903	8,396	34.6
24	Hewlett-Packard	3,968	8,090	49.0	491	1,181	41.6	2,416	8,133	29.7
25	American Intl Group	3,875	11,278	34.4	586	1,111	52.7	10,855	27,908	38.9
26	Johnson & Johnson	3,845	8,012	48.0	806	1,406	57.3	2,944	6,546	45.0
27	Tenneco	3,834	14,790	25.9	234	735	31.8	4,642	18,503	25.1
28	General Electric	3,799[2]	40,515[2]	9.4	725	4,430	16.4	6,027	38,920	15.5
29	Minn Mining & Mfg	3,616[8]	9,429	38.3	649	1,578	41.1	2,459	8,031	30.6
30	JP Morgan	3,590	6,834	52.5	–411[1]	83[1]	D-P	39,095	75,414	51.8
31	American Express	3,525	17,768	19.8	–640[9]	687[9]	D-P	23,831	116,434	20.5
32	Sears, Roebuck	3,180	48,440	6.6	36[1]	1,649[1]	2.2	2,257	74,991	3.0
33	Colgate-Palmolive	3,161	5,647	56.0	130	294	44.2	1,453	3,228	45.0
34	Bankers Trust New York	3,156	5,693	55.4	–214[1]	1[1]	D-P	30,182	56,521	53.4
35	NCR	3,081	5,641	54.6	391	751	52.1	1,776	4,187	42.4
36	BankAmerica	3,051	9,753	31.3	–1,410[1]	–955[1]	147.6	29,159	92,833	31.4
37	FW Woolworth	3,037	7,134	42.6	174	491	35.4	1,466	3,299	44.4
38	Motorola	2,937	6,707	43.8	209	578	36.2	1,652	5,321	31.0
39	American Brands [4]	2,835	6,029	47.0	324	1,071	30.3	2,732	11,314	24.1
40	Monsanto	2,756	7,639	36.1	263	764	34.4	2,120	8,455	25.1
41	Atlantic Richfield	2,605	16,282	16.0	124[1]	1,224[1]	10.1	2,564	22,670	11.3
42	Chrysler	2,591	26,277	9.9	296	2,180	13.6	3,533	19,945	17.7
43	Merck	2,561	5,061	50.6	571[9]	1,423[9]	40.1	2,128	5,680	37.5
44	K mart [4]	2,546	27,318	9.3	NA	692[1]	NA	1,018	11,430	8.9
45	Manufacturers Hanover	2,533	7,757	32.7	–1,267[1]	–1,140[1]	111.1	25,091	73,348	34.2
46	Aluminum Co of America	2,521	7,767	39.6	385	677	56.9	4,205	9,902	42.5
47	Pan Am	2,437	3,593	67.8	103	–103	P-D	NA	2,216	NA
48	Kraft	2,335	9,876	23.6	230	910	25.3	1,001	4,888	20.5
49	Pfizer	2,268	4,920	46.1	399	1,034	38.6	2,380	6,923	34.4
50	Caterpillar	2,237	8,180	27.3	–16	743	D-P	1,555	6,866	22.6
51	Sara Lee	2,214	9,155	24.2	187[9]	632[9]	29.6	1,776	4,192	42.4
52	CPC International	2,213	4,903	45.1	264	500	52.8	1,729	3,261	53.0
53	Cigna	2,184	16,909	12.9	53	764	6.9	6,215	53,495	11.6
54	Allied-Signal	2,140	11,116	19.3	136[10]	515[10]	26.4	2,112	10,226	20.7
55	Union Carbide	2,136	6,914	30.9	48[1]	232[1]	20.7	2,875	7,892	36.4
56	Unocal	2,093[2]	8,696[2]	24.1	191[11]	444[11]	43.0	1,501	10,062	14.9
57	GTE	2,052	15,421	13.3	98[1]	1,119[1]	8.8	3,522	28,745	12.3
58	Gillette	2,001	3,167	63.2	342	535	63.9	1,680	2,731	61.5
59	PepsiCo	1,970	11,485	17.2	143	1,321	10.8	2,994	9,023	33.2
60	HJ Heinz	1,859	4,639	40.1	220	593	37.1	1,383	3,364	41.1

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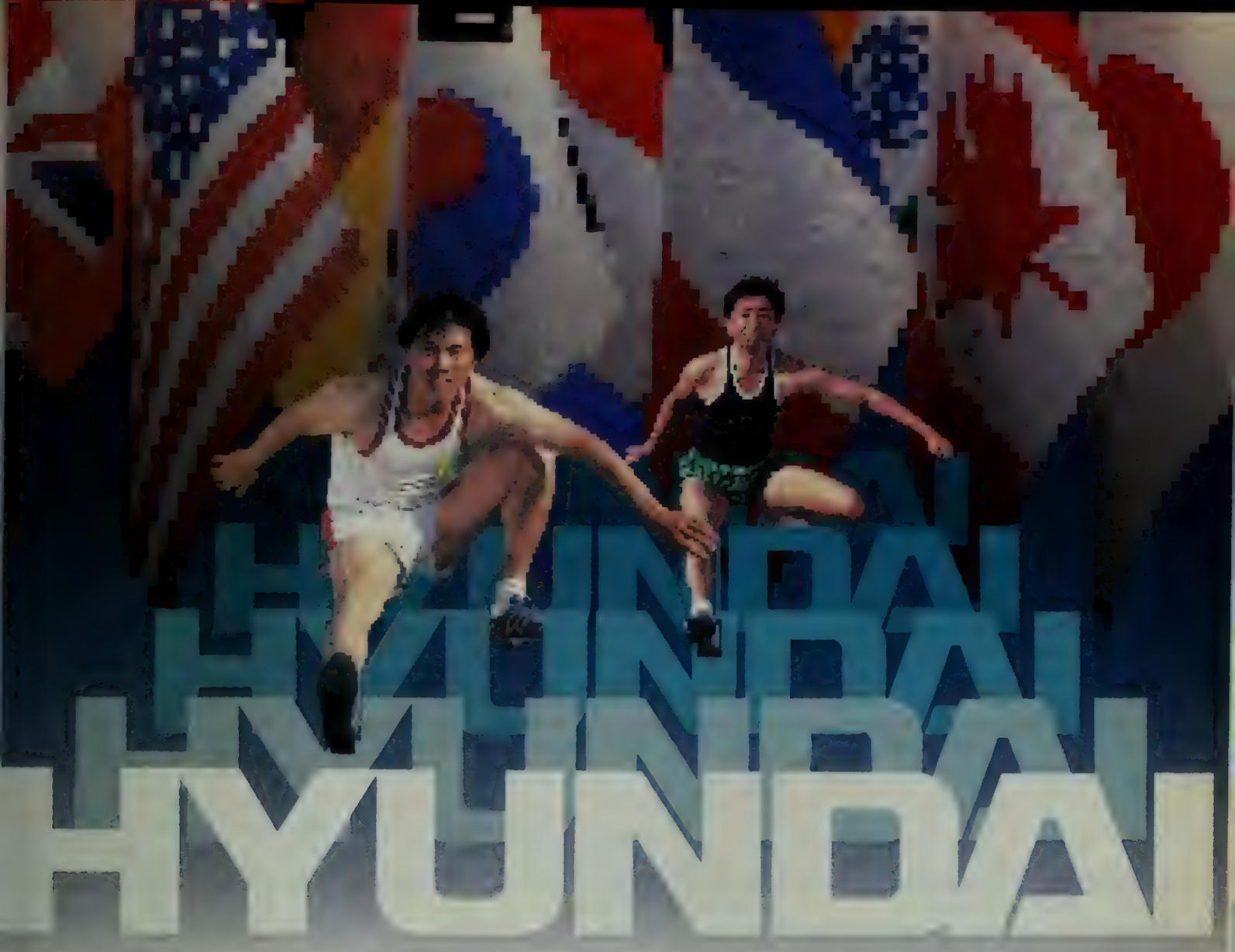
The 100 largest U.S. multinationals

1987 rank	Company	Foreign revenue (mil)	Total revenue (mil)	Foreign revenue as % of total	Foreign operating profit (mil)	Total operating profit (mil)	Foreign operating profit as % of total	Foreign assets (mil)	Total assets (mil)	Foreign assets as % of total
61	Occidental Petroleum	$1,836[2]	$17,746[2]	10.3%	$189[1]	$184[1]	102.7%	$1,913	$16,739	11.4%
62	Texas Instruments	1,765	5,595	31.5	93[1]	257[1]	36.2	1,202	4,256	28.2
63	TRW	1,755	6,821	25.7	144	589	24.4	1,397	4,378	31.9
64	Bristol-Myers	1,754	5,401	32.5	293	1,191	24.6	1,240	4,732	26.2
65	WR Grace	1,711	4,515	37.9	223	438	50.9	1,242	4,474	27.8
66	Bank of Boston	1,652	4,269	38.7	–213[1]	20[1]	D-P	6,212[5]	31,220[5]	19.9
67	SmithKline Beckman	1,651	4,329	38.1	274	921	29.8	1,566	4,446	35.2
68	Kimberly-Clark	1,631	4,885	33.4	137[1]	325[1]	42.2	1,299	3,886	33.4
69	Warner-Lambert	1,621	3,485	46.5	340	866	39.3	1,104	2,476	44.6
70	Phillips Petroleum	1,615	10,721	15.1	492	1,091	45.1	2,227	12,111	18.4
71	Chemical New York	1,611	6,628	24.3	–1,209[1]	–854[1]	141.6	20,328	78,189	26.0
72	Security Pacific	1,602	7,618	21.0	–475[1]	16[1]	D-P	17,214	72,838	23.6
73	American Cyanamid	1,548	4,166	37.2	143[1]	276[1]	51.8	1,055	4,129	25.6
74	American Standard	1,520	3,400	44.7	180	286	62.9	1,026	2,398	42.8
75	PPG Industries	1,515	5,183	29.2	203	778	26.1	1,443	4,988	28.9
76	American Home Products	1,492	5,028	29.7	279	1,285	21.7	1,385	4,608	30.1
77	McDonald's	1,456[2]	4,894[2]	29.8	127[1]	549[1]	23.1	2,473	6,982	35.4
78	Abbott Laboratories	1,453	4,388	33.1	251	1,028	24.4	1,007	4,386	23.0
79	Scott Paper [4]	1,423	4,522	31.5	134[9]	545[9]	24.6	1,352	4,645	29.1
80	Sun Co	1,409	8,691	16.2	64[3]	389[3]	16.5	2,624	12,580	20.9
81	Trans World Airlines	1,388	4,056	34.2	114[9]	108[9]	105.6	1,457	4,224	34.5
82	Honeywell	1,375	6,679	20.6	159	582	27.3	1,191	5,285	22.5
83	Allegis	1,360	8,293	16.4	NA	335[1]	NA	NA	8,226	NA
84	Deere	1,345	4,135	32.5	–5	–121	4.1	1,020	4,760	21.4
85	Rockwell International	1,325	12,123	10.9	165	1,342	12.3	1,425	8,739	16.3
86	Eli Lilly	1,310	3,644	35.9	227[9]	598[9]	38.0	1,697	5,255	32.3
87	Kellogg	1,302	3,793	34.3	92[1]	396[1]	23.2	1,248	2,681	46.5
88	Quaker Oats	1,294	4,421	29.3	120	449	26.7	584	3,250	18.0
89	Ralston Purina	1,258	5,868	21.4	110	1,205	9.1	710	3,864	18.4
90	Baxter Travenol	1,239	6,223	19.9	233	799	29.2	1,100	7,638	14.4
91	Emerson Electric	1,233	6,170	20.0	146	812	18.0	942	4,868	19.4
92	Avon Products	1,219	2,763	44.1	190[9]	385[9]	49.4	695	2,559	27.2
93	AMP	1,212	2,318	53.4	158[1]	250[1]	63.2	1,023	2,082	49.1
94	Merrill Lynch	1,182	10,659	11.1	12[9]	429[9]	2.8	6,849	55,193	12.4
95	Borden	1,159	6,514	17.8	121	614	19.7	931	4,157	22.4
96	Dresser Industries	1,154	3,120	37.0	88	57	154.4	848	2,882	29.4
97	Control Data	1,119	3,367	33.2	48	57	84.2	728	2,639	27.6
98	Westinghouse Electric	1,107	10,679	10.4	80	937	8.5	690	9,953	6.9
99	Schering-Plough	1,104	2,699	40.9	168	550	30.5	865	3,180	27.2
100	Continental Corp	1,060	5,801	18.3	29	261	11.1	2,445	11,725	20.9

[1]Net income [2]Includes other income [3]Net income before corporate and net financing expenses [4]Includes proportionate interest in unconsolidated subsidiaries and affiliates [5]Average assets [6]Includes excise taxes [7]Operating income after taxes [8]Includes export sales [9]Pretax income [10]Net income from continuing operations [11]Net income before corporate expenses D-P Deficit over profit P-D Profit over deficit NA Not available



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100 U.S.-TRADED FOREIGN STOCKS

HOW FAR WE'VE come. "Today's investor," explains S.G. Warburg & Co. Managing Director Charles Symington, "automatically thinks of international diversification."

Most Americans are best advised to buy foreign stocks in the form of American Depositary Receipts. Joseph Velli, the head of the Bank of New York's ADR division, points out that foreign custodial fees can eat up from 15 to 25 basis points of the assets' value a year. Voting is cumbersome, and it can take around 30 days after a dividend is paid or a security is sold before one's account is credited.

ADRs remove a lot of the hassle. A big U.S. broker such as Merrill Lynch will buy, say, 1 million shares of Kubota from Japan and deposit the Kubota share certificates with the correspondent ADR custodian bank in Japan. Then, in place of these shares, an American depositary bank such as Morgan Guaranty will issue an ADR to the broker. ADRs are often issued in some multiple of the underlying shares.

ADRs, quoted in dollars, offer better liquidity for U.S. investors. Companies must generally conform to most U.S. accounting standards. Dividends are paid in dollars, and ADRs are cleared and settled in five days, like any U.S. security. (The 30 foreign stocks below that are not ADRs have the legal characteristics of U.S. securities.)

This year we have included analysts' consensus estimates of 1988 earnings, provided by Lynch, Jones & Ryan's Institutional Brokers Estimate System (IBES). For those companies where estimates are available, more than 80% should show higher earnings in 1988.

Thanks to the arbs, the price of an ADR or a foreign stock traded here reflects what's happening to exchange rates and in the security's home market. Last year, for example, some investors thought Jaguar was a safe play: If the pound rose, so would the ADR's dollar price; if the pound fell, Jaguar's foreign earnings would lift profits. But the London market apparently feared the rising pound would hurt business. Jaguar ADRs are off 44% from last year. Such are the potential pitfalls of buying abroad.

Exch	Company/business	Country	Price recent	Price 52-week high	Price 52-week low	EPS 1987	EPS 1988 est[1]	Latest 12-month P/E	Yield
o	•**AEGON NV**/insurance	Netherlands	41¾	49½	25⅞	$4.62	$5.51	9.0	3.9%
a	**Amer Israeli Paper Mills**/paper products	Israel	13⅜	26½	13⅜	1.96	2.00	6.8	2.4
o	**Aneco Reinsurance**/insurance	Bermuda	3⅛	4¼	2⅛	0.73	NA	4.3	0.0
o	•**Anglo Amer Corp S Afr**/gold, diamonds	South Africa	15⅞	28¾	14¾	3.25†	NA	4.9	5.7
o	•**Anglo Amer Gold Inv**/invest precious mtls	South Africa	7⅞	12⅞	7⅛	0.75†	NA	10.5	7.0
n	**ASA Limited**/closed end invest co	South Africa	44⅜	72⅞	40⅛	3.67	3.85	12.1	12.4
n	**Ausimont NV**/specialty chemicals	Netherlands	34¼	35	10	1.91	2.21	17.9	1.8
n	•**Barclays**/bank	UK	29½	37¼	25⅜	1.95	5.69	15.1	6.4
a	•**B.A.T Industries**/tobacco, paper prods	UK	7⅝	11⅝	6¾	0.99	1.16	7.7	4.3
o	•**Beecham Group**/drugs, food process	UK	16¼	19¾	11⅞	0.63	1.22	25.8	1.9
n	**Benguet**/gold & copper, machinery	Philippines	4⅜	8⅞	2½	0.31	NA	9.8	2.9
o	**Biogen NV**/biotechnology	Netherlands	6⅝	11¼	3¾	–1.02	–0.36	NM	0.0
o	•**Blyvooruitzicht Gold Mining** gold, uranium	South Africa	4¼	8⅝	4⅝	0.97	0.89	4.9	12.4
o	•**Bowater Industries**/paper products	UK	7	9¾	5¼	0.69	NA	10.1	5.4
n	•**British Airways**/airline	UK	26¼	37½	22⅛	3.95	4.12	6.6	5.5
n	•**British Petroleum**/integrated oil	UK	56⅝	80⅜	44⅞	4.92	5.26	11.5	5.5
n	•**British Telecommunications** telecomm	UK	42⅞	50	35	4.46	4.65	9.6	4.0
n	•**Broken Hill Proprietary** steel, oil & gas prod	Australia	27½	32½	16½	1.76e	2.06	17.2	3.3
o	•**Buffelsfontein Gold Mining** gold, uranium	South Africa	16¾	24¾	16¼	3.27	2.67	5.1	13.9
o	•**Burmah Oil**/oil	UK	40¾	43½	23⅛	3.12	NA	13.1	3.3

a American Stock Exchange n New York Stock Exchange o over the counter •American Depositary Receipts NA Not available NM Not meaningful. e estimate †1986 result [illegible] Estimate System (IBES), a service of Lynch, Jones & Ryan via Lotus CD/Investment.

Exch	Company/business	Country	Price recent	Price 52-week high	Price 52-week low	EPS 1987	EPS 1988 est[1]	Latest 12-month P/E	Yield
n	•**Cadbury Schweppes**/food processing	UK	73¾	77¼	34	$3.56	$3.79	20.7	2.2%
n	•**Canon**/precision instruments	Japan	48¼	54	28¾	0.88	1.10	54.8	0.7
n	**Commodore Intl**/computer equip	Bahamas	10⅞	11⅝	6¼	0.71	1.45	9.1	0.0
a	•**Courtaulds**/textiles	UK	6⅜	8½	4¾	0.77	NA	8.3	2.7
o	•**De Beers Cons Mines**/diamonds	South Africa	11⅞	17⅝	7⅞	1.46	1.60	8.1	3.8
o	•**Dresdner Bank**/bank	Germany	136¾	204½	126	19.54	10.59	7.0	3.2
o	•**Driefontein Consolidated**/gold	South Africa	10½	15¼	9¼	1.26	NA	8.3	7.0
n	•**Elan**/biotechnology	Ireland	9	23	6¾	–0.24	0.43	NM	0.0
n	**Elbit Computers**/computer equipment	Israel	4⅛	10¾	4⅛	0.92	NA	4.5	2.2
n	**Erbamont NV**/drugs	Neth Antilles	28	31⅞	15½	2.10	2.36	13.3	2.1
o	•**LM Ericsson Tel**/telecommunications	Sweden	40⅜	43⅝	25¼	2.96	3.34	13.6	3.2
a	**Etz Lavud**/wood & plastic prods	Israel	4¾	11⅜	3¾	1.06†	NA	2.7	0.0
o	•**Fisons**/drugs	UK	19	26⅛	15½	1.31	NA	14.5	1.6
n	•**Free St Con Gold Mines**/gold mining	South Africa	9	19⅝	8½	3.61	1.90	2.5	12.3
o	•**Fuji Photo Film**/photo products	Japan	59¼	68⅜	44½	2.68	3.10	22.1	0.3
n	•**Gambro AB**/health care equip	Sweden	18⅞	22	13¼	0.93	NA	20.0	0.9
n	•**Glaxo Holdings**/drugs, food, med eq	UK	17	30⅝	15¾	1.08	1.35	13.2	2.6
o	**Gold Fields So Afr**/gold mining	South Africa	18	31⅞	13⅝	1.68	1.91	10.7	3.9
n	**Gotaas Larsen Shipping**/maritime	Bermuda	35	36¼	18¼	2.76	3.74	12.7	0.8
n	•**Hanson Trust**/tobacco, food, retail	UK	12½	16	9	1.10	1.39	11.4	4.4
a	•**Hard Rock Intl**/restaurants	UK	7⅝	12⅝	5⅛	0.45	0.50	15.9	2.1
n	•**Hitachi**/electrical equipment	Japan	110⅜	120½	69¼	3.50	3.45	31.5	0.5
n	•**Honda Motor**/autos, motorcycles	Japan	132¾	147⅞	78	7.85	7.68	16.9	0.6
o	•**Huntingdon Intl Holdings**/lab services	UK	22¾	28	11	1.34	0.75	14.4	0.0
n	•**Imperial Chemical Inds**/chemicals	UK	75½	108⅛	66½	8.53	9.26	8.9	5.3
o	•**Instrumentarium**/health care equip	Finland	14⅜	14¾	11⅜	0.98	1.38	14.7	1.5
n	**InterPharm Labs**/biotechnology	Israel	3¾	4¼	2¾	–0.25†	NA	1.7	0.0
n	•**Jaguar**/automobiles	UK	4⅞	9⅞	4⅜	0.63	0.72	7.7	4.5
n	**Japan Air Lines**/airline	Japan	224½	275	166¼	–0.37e	0.68	NM	0.2
n	**KLM Royal Dutch Airlines**/airline	Netherlands	18¼	27¾	13¼	3.34e	3.37	5.3	4.1
o	•**Kloof Gold Mining**/gold mining	South Africa	9⅝	16⅛	8⅞	0.69	0.71	13.9	1.0
n	•**Kubota**/agricultural equip, pipe	Japan	121	121	77	1.30	NA	69.5	0.8
n	•**Kyocera**/ceramics, electronics, optics	Japan	83½	98¾	58½	2.19e	2.71	52.2	0.7
a	**Laser Industries**/health care equip	Israel	3⅞	15⅜	3¾	0.80	1.10	10.2	0.0
o	•**LVHM***/luxury goods	France	84¼	91	38¾	4.49	4.87	18.8	0.3
n	•**Makita Electric Works**/electrical equip	Japan	66½	75¼	40	2.54e	2.69	50.4	0.8
n	•**Matsushita Electric Indl**/electronics	Japan	197⅜	228	103¼	6.73	8.23	29.3	0.3
n	•**Minorco**/invsts foreign mines	Bermuda	13¾	17⅞	9¼	0.51	NA	12.7	2.0
n	•**Natl Westminster**/bank	UK	30⅝	38⅝	25	3.18	NA	9.7	4.9
o	•**NEC**/telecomm equipment	Japan	82¼	91⅞	55½	0.90e	1.43	NM	0.3

a: American Stock Exchange. n: New York Stock Exchange. o: over-the-counter. •American Depositary Receipts. NA: Not available NM Not meaningful e: estimate. *Formed by merger, full name LVHM Moët Hennessy Louis Vuitton. †1986 result. [1]Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan via Lotus CD/Investment

100 U.S.-traded foreign stocks

Exch	Company/business	Country	Price recent	Price 52-week high	Price 52-week low	EPS 1987	EPS 1988 est[1]	Latest 12-month P/E	Yield
n	•**News Corp**/newspapers, broadcasting	Australia	19	35⅝	12¼	$1.68	$1.83	9.8	0.5%
o	•**Nissan**/automobiles	Japan	15½	16⅛	8¾	0.18	0.31	NM	1.1
n	•**Norsk Hydro AS**/energy, chemicals	Norway	32⅛	39⅜	19	3.44	4.35	9.3	2.6
n	•**Novo Industri AS**/drugs	Denmark	30⅞	40⅞	17¼	3.07	3.16	10.1	1.7
o	•**Oce-van der Grinten**/copying equip	Netherlands	22¼	45⅜	16½	2.79	2.85	8.0	3.9
a	**Optrotech**/electro-optical sys	Israel	3⅝	6½	3½	0.55	0.45	6.6	0.0
a	•**Pacific Dunlop**/multicompany	Australia	14⅝	18⅜	8½	0.85	0.94	17.2	4.0
o	•**Pharmacia AB**/health care equip	Sweden	21⅛	30¼	15	1.05	1.34	20.1	0.9
n	**Philips NV**/elec equip, electronics	Netherlands	15	27⅛	12⅝	1.88	1.63	8.0	6.0
n	•**Pioneer Electronics**/electronics	Japan	48	54⅞	29¾	0.91	1.37	38.1	0.5
o	•**Rank Organisation**/leisure services, mfg	UK	12⅝	13¾	8⅜	1.10	NA	11.5	3.3
o	•**Reuters Holdings**/intl news services	UK	28⅞	91⅜	25	1.47	1.80	19.6	1.6
o	•**Rodime**/computer equip	UK	2¾	9¾	1½	–2.40	0.25	NM	0.0
n	**Royal Dutch Petroleum**/integrated oil	Netherlands	115	141	94⅜	12.92	12.51	8.3	5.8
n	•**Saatchi & Saatchi**/advertising	UK	20¼	34⅜	16½	2.15	2.56	8.7	4.8
o	•**St Helena Gold Mines**/gold	South Africa	8½	20¾	8	0.88	1.29	9.7	8.5
a	**San Carlos Milling**/sugar	Philippines	3⅞	4⅞	1½	–0.08†	NA	NM	1.8
o	**Santos** /oil & gas	Australia	14	19⅝	8⅝	1.18	1.01	11.9	2.1
o	**Sanyo Electric**/electronics	Japan	25⅛	25⅞	14⅛	–0.90	0.13	NM	0.9
n	**Schlumberger**/oilfield svcs, electronics	Neth Antilles	35½	51	26	1.02	1.69	34.8	3.4
n	**Sea Containers**/maritime	Bermuda	22¾	30½	12	2.16	4.81	10.5	1.1
n	**Shell Trans & Trading**/integrated oil	UK	75⅞	98⅛	67	6.24	7.10	11.3	6.3
o	•**SKF AB**/bearings & steel prods	Sweden	45⅝	62	32¼	4.69	4.09	9.6	3.8
n	•**Sony**/electronics	Japan	40¼	45¼	21⅝	1.19	1.47	33.8	0.7
n	**Syntex**/drugs	Panama	40⅞	48¾	23	2.07	2.51	17.0	3.2
n	•**TDK**/audio- and videotape	Japan	69	78½	51½	2.26	2.48	30.5	0.8
o	•**Teva Pharmaceutical**/drugs	Israel	5⅝	12	4¾	0.72†	NA	7.6	2.1
o	•**Tokio Marine & Fire Ins**/insurance	Japan	76¾	85⅞	48⅝	1.33e	1.40	68.5	0.2
o	•**Toyota Motor** /automobiles	Japan	36	39¼	21½	1.34	1.68	26.9	0.6
a	•**Tubos de Acero de Mexico**/steel	Mexico	3½	11⅞	1⅞	–0.35	NA	NM	0.0
n	**Unilever NV**/multicompany	Neth Antilles	54¾	73½	38	5.05	5.56	10.7	3.5
n	**Unilever Plc**/multicompany	UK	32⅞	47½	28⅜	3.03	3.22	10.8	3.1
o	•**United Newspapers**/publishing	UK	15	22½	12⅝	1.35	1.45	11.1	5.3
o	**Universal Furniture**/furniture	Hong Kong	15½	20	10¾	1.18	1.48	12.3	0.8
o	•**Vaal Reefs Expl & Mining**/gold	South Africa	8⅛	15¾	7¾	0.78	0.92	10.4	9.1
o	**Velcro Inds NV** fastening tapes	Netherlands	14¾	24½	9½	1.04	2.00	12.5	6.5
o	•**Volvo AB**/automobiles	Sweden	56⅛	68¼	38⅝	9.12	8.06	6.5	2.7
o	•**WCRS Group**/advertising	UK	9¾	10¼	6⅝	0.75e	0.95	14.9	0.6
o	•**Western Deep Levels**/gold	South Africa	33½	72½	32¾	2.55	2.96	13.1	6.0
o	•**WPP Group** advertising	UK	20⅛	20⅞	14¾	0.55	1.51	36.6	1.3

a American Stock Exchange n New York Stock Exchange o over the counter •American Depositary Receipts NA Not available NM Not meaningful e estimate † 1986 result Source International Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan via Lotus CD Investment

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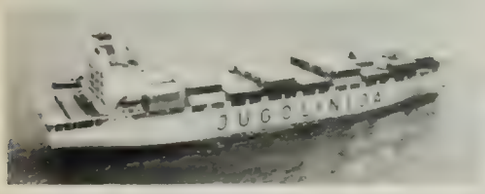

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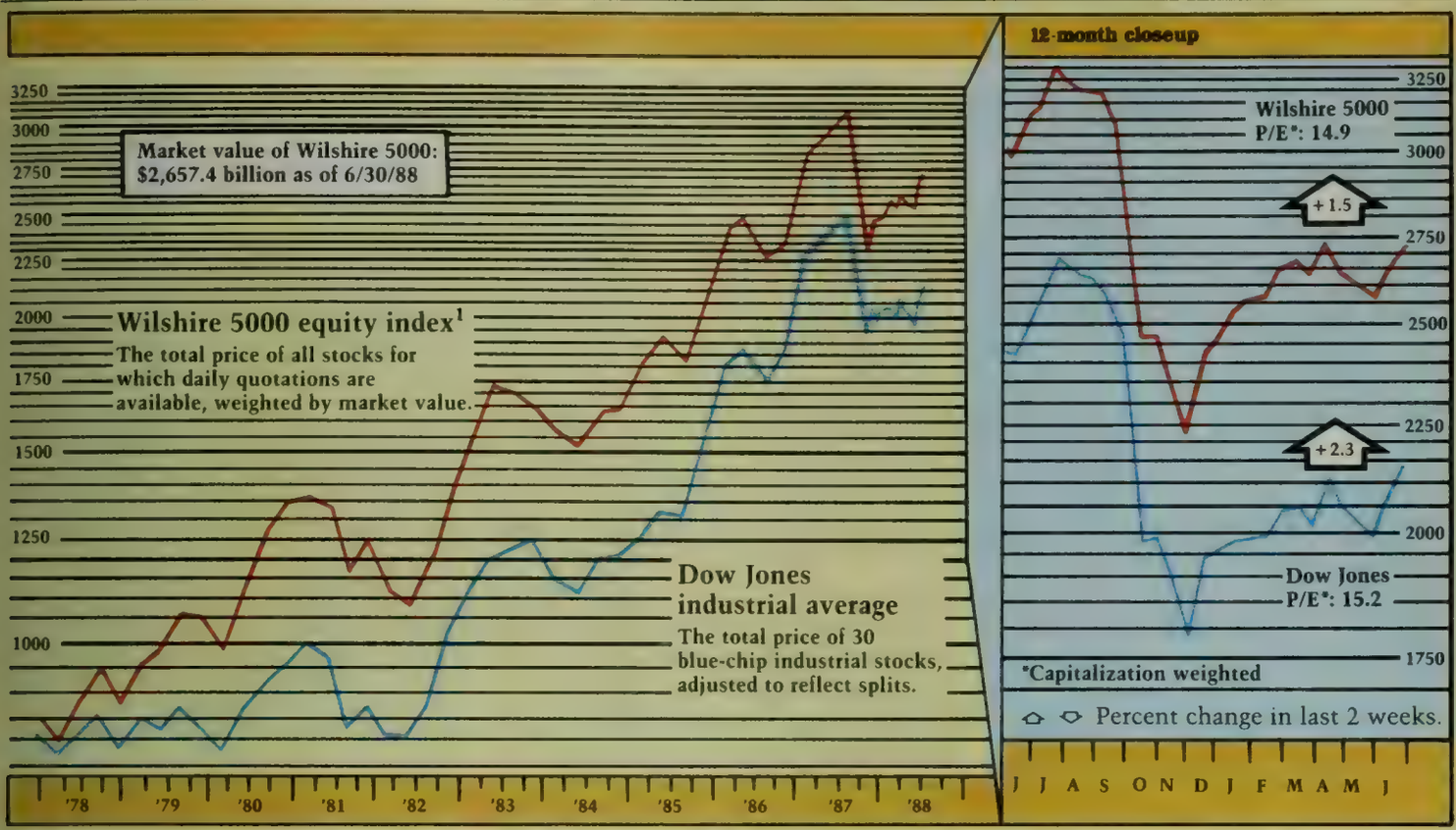
Edited by Steve Kichen



Is the "sentiment" always wrong? Better hope so, in light of what the indicator from *Investors Intelligence* in New Rochelle, N.Y. is saying. The newsletter monitors the bullishness and bearishness of 135 investment advisers. Recently, 50.4% were bearish, versus a long-term norm of 33%. A lot of bearishness among these pros is taken as a bullish signal. Why this paradox? According to the newsletter's editor, Michael Burke, "Money managers are holding a lot of cash" because of their pessimism, and this cash has to find its way back into the market sometime. Contrariwise, last August the sentiment indicator showed that only 19.2% of investment advisers were bearish and 60.8% were bullish. (The rest were on the fence.)

With a 1.6% gain in the last two weeks of June, the Dow has now recovered 40% of the ground it lost between August and October. Historical note: Following the October 1929 crash, the Dow recovered 52% before resuming its collapse.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 2 weeks	1.5	1.5	2.3	1.3	0.7	2.0
in last 52 weeks	–9.6	–10.2	–12.1	–10.1	–9.0	–7.3

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 2 weeks	3.9	4.9	9.5	2.1	4.6	4.5	4.0	7.7	7.3	3.4	4.2	3.6
in last 52 weeks	–4.1	17.6	22.3	5.5	–1.5	1.0	1.8	25.0	21.3	5.3	–0.4	13.0

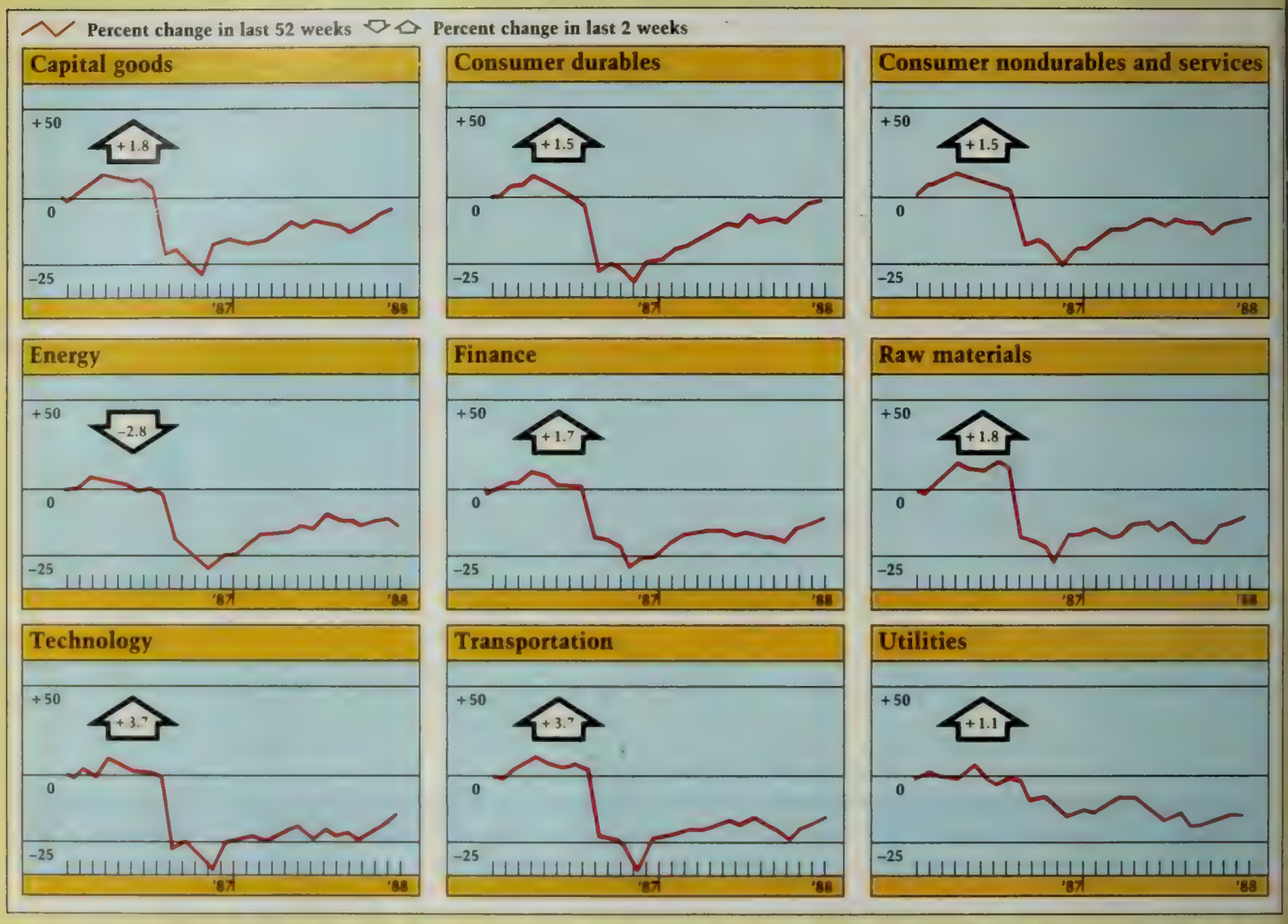
[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/30/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Going nowhere on a full tank. The abundance of oil is undercutting efforts by the world's oil producers to curtail production and support higher prices. Had the U.S. not deregulated its energy market in 1981, oil prices would quite possibly be much higher and supplies much lower than they now are. But the free market that has been tonic to consumers has been tough on most of the energy industry. During the last two weeks energy stocks declined 2.8%, while the eight other Wilshire groups posted respectable gains. Dresser Industries fell 14.7%, and Ocean Drilling & Exploration lost 12%. Quaker State, Chevron and Phillips Petroleum fell around 9%. A few of the larger energy stocks bucked the trend: Transco Energy was up 9.1% and Ashland Oil, 5.5%.



What the Analysts Think

Ford versus GM. Analysts raised 1988 earnings estimates for consumer durables, raw materials and energy during the last two weeks. Both Ford and GM were upgraded with higher forecasts. Analysts now expect Ford common to earn $5 billion in 1988; GM common, $3.2 billion. For the remaining six Wilshire sectors, forecasts were lowered.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.69	14.5
1988 estimates	3.55	10.9
1989 estimates	3.93	9.9

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Consumer durables	$4.43	11.6	1.27%	1.90%
2	Raw materials	3.02	10.8	0.73	1.27
3	Energy	3.03	12.3	0.47	1.57
4	Capital goods	2.59	14.9	–0.05	0.72
5	Technology	2.88	12.5	–0.08	0.05
6	Utilities	2.41	10.1	–0.09	–0.15
7	Consumer nondurables	2.49	13.2	–0.23	–0.38
8	Finance	3.43	8.3	–0.46	–0.62
9	Transportation	2.45	11.5	–1.10	–1.14

Earnings projections are capitalization weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System, IBES, a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 6/30/88. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

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Forbes Wagon Creek Ranch

Bond man Henry Spencer can't predict interest rates, but he knows a relatively cheap bond when he sees one.

PLAYING THE SPREADS

By Ben Weberman

Henry Spencer, who manages the fixed-income portfolio of Guardian Life Insurance Co., is in a different league from you or me. For one thing, he'll do as many as 30 bond trades a day, in blocks of up to $25 million. For another, he has $2.4 billion to play with. But you can learn something from his strategies.

In today's volatile bond market, the old game of buy-'em-and-put-'em-away no longer works. For Guardian, as for any intelligent investor, the game now is aftertax return. Return here means total return: coupons plus (or minus) capital gains and losses. "I like total return because that emphasizes high-grade issues, while the search for high coupons biases you toward the low-quality end," says Spencer. Rather than go to junk bonds for maximum yield, Spencer seeks to make money with a combination of yield plus capital gains.

As for taxes, life insurers like Guardian are in much the same boat as the retail buyer. You can get 9% or so on Treasury paper that is federally taxable but exempt from state taxes, or settle for about 8% from a municipal bond that is mostly exempt from federal tax but probably subject to state tax.

Spencer says his firm faces a marginal tax rate of about 8% on muni interest. An individual living in a high-tax state like New York or Connecticut faces a similar rate on interest from out-of-state municipal bonds. Both corporations and individuals suffer tax rates on Treasury paper at much higher rates—in the vicinity of 30%.

Given their aftertax yield advantage, high-grade munis almost always trade with smaller yields to maturity than T bonds. And when they don't? "There's a clear buying opportunity when the muni yield line is right on top of the T bond," says Spencer.

Two other factors are at work. Municipals can be called in early at the option of the issuer, making them slightly less desirable; most Treasurys are noncallable. And ratings on municipals aren't always as high as the Treasurys' AAA. But these factors scarcely justify a muni yield as high as a Treasury yield.

Says Thomas Sowanick, a senior bond strategist at Merrill Lynch: "During periods of sharply falling rates, like 1986, the lack of call protection in the muni sector produces substantially wider yield differentials than normal. When are munis a cheap buy? It depends on the fundamentals, but clearly when munis are trading close to Treasurys you want to buy munis."

Spencer uses tax-free, A-rated North Carolina Eastern Municipal Power Agency bonds as a benchmark. In mid-June North Carolina Eastern 7½s of 2019 yielded 8.25% to maturity, while 30-year Treasury bonds carried a return of 8.8%, a spread of about 55 basis points. The munis, that is, were too cheap, and Spencer was buying them. A month earlier the spread was 90 basis points. Comparatively speaking, the munis were then too expensive. Spencer was selling.

There have been periods of even greater misalignment. In the spring of 1986 the markets were panicked at the prospect of tax changes that would make munis less valuable. The North Carolina Easterns kept dropping in price until their yield was 125 basis points greater than the yield on long Treasurys.

Spencer makes no attempt to forecast interest rates. "I'm not a good interest rate picker and nobody I know is," he says. Rather than wasting his time on the unpredictable, Spencer prefers to look at relative values—spreads, that is. Last summer he was buying Chester, Pa. bonds of questionable tax status but undisputed quality (bond insurance made them AAA), when they yielded 150 basis points over comparable Treasurys. Recently he was selling them to yield only 40 basis points over Treasurys.

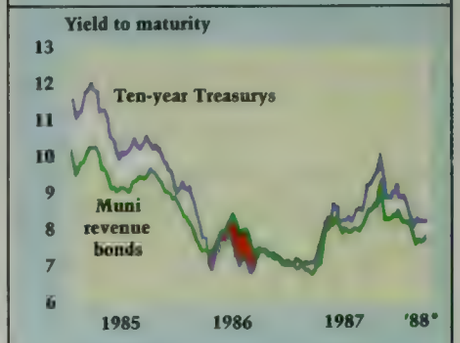
Lately he's been buying tax-exempt mortgage revenue bonds guaranteed by GNMA, from such issuers as Lubbock, Tex. Housing Finance Corp. and East Baton Rouge Mortgage Finance Authority. They pay about 10 basis points less than similar munis that aren't GNMA-guaranteed. If that spread widens substantially, he'll sell.

Results? Excellent. Spencer, 48, has averaged an annual 14.2% of total return, partly tax exempt, over the three years ended last December, against a fully taxable 12.9% for the Merrill Lynch Corporate/Goverment bond index. ■

Ben Weberman is a contributing editor of FORBES *magazine.*

Munis vs. Treasurys

When yields on municipal revenue bonds are above those on ten-year Treasurys, they're a buy.



* Through March. *Source: Merrill Lynch*

How are the very big money managers playing the presidential election?

DUKAKIS OR BUSH? DOES IT MATTER?

By Susan Lee

Ask money managers about the impact of the election campaign on the market and the reaction is a big ho-hum. And that goes for those who run giant portfolios as well as those who run small ones, for those who sit in New York City and those who sit in Newport, Calif., Des Moines or Houston. Why this apathy? Lots of reasons.

Chief among them is the Tweedledum-Tweedledee hypothesis. Unlike elections where the candidates represented distinct alternatives, like Nixon-Kennedy or Reagan-Mondale, managers think Bush and Dukakis are very similar. Says Charlie Parker of CIC Asset Management: "If you really cut through the surface, especially when you look at each candidate's economic advisers, there isn't much difference between the two."

This Tweedledee view extends beyond the candidates' policies to their personal bravery in dealing with major issues. While many money movers think action on the budget deficit is pivotal, they don't expect either candidate to reveal what, if anything, he would do. This will, of course, create uncertainty. And—as all agree—if there is anything that the market hates, it is uncertainty. They expect, at best, what Nathan Hayward III of Wilmington Trust sees as a "nervous market, back and fill, back and fill." Or, at worst, they expect the market to respond by trending down.

Ask money managers about what will happen after the election, and the reaction is again almost universal—caution and anxiety. Some point to the political cycle as a reason for concern: That theory says whoever gets into office will want a recession soon, just to get it over with early in his administration.

Doug Loudon of Scudder has a slightly different worry. "The biggest risk is that whoever gets elected will try to solve yesterday's problems. A year from now, yesterday's problems will be the budget and the trade deficits—they'll still be large but on their way to being corrected." He sees, for example, a high probability of a tax increase, which could then force a recession. And Charles Salisbury at T. Rowe Price points out that one thing is certain—Congress will be Democratic, and that means the deficit could be dealt with by a tax on corporations.

One of the most sanguine managers I talked to was Roy Ehrle at the Principal Financial Group. He doesn't think that the election will have a major impact on the market. Why? Because whoever gets elected will find that his policies are constrained by the markets. "If there's a perceived threat of inflation, then there will be an immediate reaction in the long-term bond market, with investors demanding an inflation premium. In the foreign exchange market, investors will either pull out or demand an inflation premium. We've seen how markets chaperone governments."

Perhaps part of this apathy is caused, too, by the fact that few money runners are concerned about a recession, at least any time soon. Steve Timbers at Kemper doesn't see a recession for another year. He thinks that the economy will continue to grow at 2% to 3% with higher inflation. Since he expects the industrial sector to stay strong, he is up for Caterpillar, Deere and Nucor. He also likes some consumer and tech stocks, and the low valuations on Dun & Bradstreet, MCI and Royal Dutch.

Doug Loudon, too, is hot for consumer stocks where he sees some good values (Anheuser-Busch, Coca-Cola, McDonald's) and industrials (Caterpillar, General Signal and Cooper Industries).

Charlie Parker expects a pronounced slowdown by the third quarter, and a "not implausible" recession by the end of this year into next June.

William Cvengros of Pacific Financial Cos., who says he's more defensive than he's been in the past few years, has most of his exposure in utilities: Con Edison, Bell Atlantic, Public Service Enterprise Group of New Jersey. He expects the total return of this portfolio to come to around 12%.

Salisbury is one of the few who do expect a recession but, as he admits, "my credibility isn't good; I thought Oct. 19 would cause a recession early this year." He's using international bonds to diversify out of the dollar. He's also playing a number of smaller, medical technology companies: Acuson Corp., a maker of ultrasound imaging equipment; and Biomet, which makes surgical implant devices.

(Perhaps the most agnostic money manager I talked to was Sam Hale of Hillside Associates. Hale doesn't give a fig about the campaign or the election. "Our philosophy is to buy cheap stocks. If there are cheap stocks around, we buy them; if there aren't, we don't buy them." Hale likes Nipsco Industries, the old Northern Indiana Public Service. It's in the middle of the rust belt and is benefiting from the resurgence of the steel industry.)

So how will the market go? With ennui and caution among money managers, don't expect it to break out of its trading range of 1700 to 2200 on the Dow. Yawn. ■

Susan Lee is a senior editor of Forbes magazine

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All you investors hiding in bomb shelters: Come out. There are bargains around.

ARMAGEDDON IT WASN'T

By David Dreman

The San Andreas fault didn't drag most of California's coastline into the sea in March. Nor did the stock market plunge through the floor as it did in early 1930, despite the dire predictions of numerous experts. Not surprisingly, the charts showing the eerie similarity between early 1930 and 1988 are no longer featured in many publications.

Yet, though it is now clear that the world didn't come to an end last Oct. 19, a good many investors are still cowering in their bomb shelters. My advice to them is: Come on out. There are some extraordinary values around. Hiding in there, you have already missed some of them: This year the Dow Jones industrial average and the S&P 500 are up by over 11%, and the smaller-cap issues, massacred in 1987, have come back even more. We have had an excellent recovery from the worst crash in history, and a faster one than I thought likely.

To invest here, you have to tune out the nervousness all around you and go for the abundant values available. Remember economic fundamentals are exceptionally good, the trade balance is decreasing steadily, unemployment is at an 11-year low, while millions of new jobs are being created. Wage increases are moderate, and the dollar appears to have stabilized. While nobody can predict how bad the drought will be or its effect on food prices, there is some offset in the prospect of oil prices holding steady, or even dropping, as OPEC members continue their squabbling.

Then, look at corporate earnings, which were up 20% in 1987, the largest increase of the decade, with estimates for the S&P 500 earnings to rise by 15% to 20% this year, as the result of strong economic conditions. Higher earnings, combined with lower stock prices, have dropped PEs from 20 precrash to about 12 times 1988 earnings. We have come from a period of stock overvaluation to where the market is trading below long-term norms.

There are exceptional opportunities available for the low-P/E investor precisely because of the skittishness of this market, values that are around only every decade or so. The last time we had opportunities such as are presently available was back in 1974, at the end of the worst bear market of the postwar era.

Then, as now, most investors were shell-shocked and on the sidelines. Any bad news, no matter how temporary, could send a good stock into a free-fall. Value investors who bought such stocks back then made a bundle as the market came back. A strong parallel exists here. Today you can once again buy some of the major growth companies at low-P/E multiples because of temporarily disappointing news.

Digital Equipment (112), everybody's favorite computer stock last year, is an excellent example of what I mean. Normally trading at a significant premium to the market because of its rapid growth and strong market share, the company has had several disappointing quarters as a result of the introduction of major product lines, with accompanying higher expenses. The stock, which traded at up to 200 in 1987, dropped to as low as 99—or 10 times earnings—this year, well below its Oct. 19 low. It is still very much a low-P/E stock, with the likelihood of well-above-average growth in the year ahead.

Some other first-rate companies providing similar opportunities:

Federal Express (44), the nation's largest air courier, is trading below its Oct. 19 low because of the fears of increased competition and market saturation. Federal continues to hold a 50% share of a market that is still growing at a better-than-20% clip. Earnings should rise to $3.65 this year, with 15%-plus gains over the next several years. The stock trades at a P/E of 12.

Scott Paper (40) is a major consumer products company with only a minor portion of revenues derived from the pulp and paper industry. Earnings have grown at better than 30% annually over the past five years and should be up more than 25% this year. The stock trades at a P/E of 11 and yields 1.8%.

Unilever NV (54) is a large international consumer products company based in the Netherlands that trades at a substantial discount to some of the U.S. majors. The company's earnings have made a significant turnaround in recent years and should be up by 10% in 1988. Unilever's P/E is 10. It yields 3.5%.

With these and other relatively cheap stocks, recognize that we are in a very different investment world than pre-October. The market is skittish, with irrational behavior the norm. Thus it dropped 102 points in a single day because of a higher than expected trade deficit in March, and then fell 120 points in two days because the April deficit was much better than anticipated. The nervous investor reacts nervously, and so irrationally, to every bit of news.

It's precisely in these periods of high investor uncertainty and overreaction that big bucks can be made by people with the courage to buy good stocks cheaply. ■

David Dreman is managing director of Dreman Value Management Inc., Investment Counsel, New York, and author of The New Contrarian Investment Strategy.

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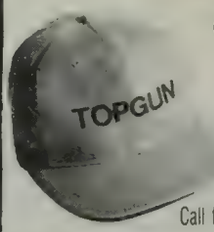

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I am not negative on equities, but I wouldn't hurry to buy for the next dozen weeks. Bad news may be in the offing.

SUMMER FIZZLE?

By Ann C. Brown

Here we are—just a few days after the fourth of July—and the fireworks could be over for the summer rally in the stock market. The flurry of upside activity that began in late June was caused largely by a combination of factors unlikely to be repeated anytime soon. Not that I have turned negative on equities. I haven't. I just wouldn't be in a hurry to buy for the next dozen weeks or so for a half-dozen reasons.

First of all, I'm concerned that the recent strength in the dollar, which helped boost stock prices toward the end of the second quarter, may be a short-lived uptick in a long-term downtrend. The greenback rose partly because of the copacetic economic summit in Canada and partly because of the unexpectedly favorable merchandise balance of trade. Even with the revived seasonal adjustment, I find this measurement one of the government's most unreliable. The numbers are too greatly influenced by such controllable actions as gold sales and the timing of imports and exports. I look for the dollar to weaken, which is not good for stock prices.

Second, the extent and severity of the drought has yet to be felt. Inflation at the consumer level is already nearly double what it was a year ago, and the drought should worsen the situation. In addition, the plight of the farmers could cause the Administration to distribute billions in aid (this is election year), which would exacerbate the budget deficit and put upward pressure on interest rates—and downward pressure on stocks.

Third, several central bankers recently have shown a willingness to tighten their interest rates a notch or two. If this action continues, the Federal Reserve may have to raise the U.S. rates even though it would prefer not to do so (again because it's an election year). Any such move could cause a correction in the stock market back to the 1950-2000 support level on the DJI.

Fourth, the latest reports of a downturn in housing starts, a decline in durable goods orders and less than buoyant retail sales have been greeted with enthusiasm by the stock market as a sign that the U.S. economy is not overheating. To date, bad news has been good news. I worry what will happen to stocks when bad news is bad news.

Fifth, from now to November center stage will belong to politics. Previously vague and fuzzy positions on issues soon will be clarified. Insofar as economics is concerned, I doubt either Dukakis or Bush will say anything to create a stock buying panic. It could be just the opposite if serious tax increases are proposed to balance the budget—or if costly new social welfare programs are dangled before the eyes of voters.

Finally, I would like to see what second-quarter corporate profits look like. The market is edgy, and any earnings disappointments could shake the very fragile confidence that has been slowly building since last October's crash. On the whole I expect earnings to be better than earlier expected since the economy has been growing at a faster rate than anticipated. The Tax Reform Act of 1986, which only went into effect for corporations mid-last year, should enable many companies to continue to show excellent year-to-year comparisons. And the numerous corporate stock buyback programs should enhance selected earnings performances.

Four stocks I recommended over the first six months of this year, and which still look like good buys around their current prices, are: *PepsiCo* (37), *Squibb* (62), *Ashton-Tate* (26) and *General Motors E* (38, also known as Electronic Data Systems). Three new names to consider are *Unisys Corp.* (37), *Stone Container* (35) and *Computer Associates, Inc.* (29)—especially if they become available at 10% below their current prices.

Unisys, in case you have forgotten in the recent rash of mergers, is the result of the 1986 union of Burroughs and Sperry Corp. The integration of these two major computer manufacturers appears to have gone smoother than expected, and UIS could show earnings per share of $3.65 this year vs. $2.93 last year. Earnings for 1989 could reach $4.25 per share. The stock sold as high as $48 last year and could reach this level again over the next 12 months.

Stone Container makes corrugated containers and paperboard—both of which are in great demand, thanks to the boom in U.S. exports. Because of the sensitivity of STO's product line to the business cycle, there are fears the company will not perform well if there is a recession in 1989. Since we may be in for a long period of slow growth with no recession, Stone Container's earnings per share could hold up better than many predict. For 1988, STO could earn $4.75 per share. For 1989, $5.25 looks possible.

Computer Associates is the largest software company in the world after the acquisition of Uccel a year ago. CA still has ample cash and plenty of borrowing power to finance further takeovers, and is expected to grow over 30% per year for several years. Estimated earnings per share for fiscal 1988, $1.75. For fiscal 1989, $2.30. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

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LA REVISTA LATINOAMERICANA

Visibility where it counts

I detect a new modesty in the claims made by investment letter editors, suggesting that investors are getting smarter.

MODESTY IS THE BEST POLICY

By Mark Hulbert

It's funny: Listening to advisory letter editors at investment conferences, as I just did at a Toronto gathering hosted by Investment Seminars Inc., I often find myself wondering if they have ever made a mistake. But since their investment outlooks were so divergent when they spoke at previous seminars, I'm pretty sure that they can't all be batting 1.000.

Actually, however, I detect a silver lining in these advisers' inflated claims of omniscience. For all the exaggeration that did take place at the Toronto seminar, it seems to me that far less of it occurs now than in past years. At one time, whether at other conferences or in direct mail advertising, I would hear claims about profitability that in and of themselves strained credulity. Without looking further, I knew they couldn't be true.

Now it's different. Moderating one of the Toronto conference sessions, I kept careful track of the claims being made by the dozen speakers. No one claimed to have made more than 20% per year compounded over the past decade.

Mark Hulbert is editor of the Washington D.C. based Hulbert Financial Digest *and author of* The Second Hulbert Financial Digest Almanac, *published by Merrill Lynch Books.*

Even this was no doubt an exaggeration in some cases. But it is noteworthy that no one claimed more. A few years ago, as anyone whose name is on financial mailing lists can attest, advertisements were filled with claims about supposedly low-risk strategies that made thousands of percent profit. My file of exaggerated claims from past years' advertising, for example, includes an advertisement in which a letter claims to be able "regularly" to earn annual profits of 1,602%. In another advertisement, an adviser promised to teach investors how to earn 950% more than the Dow industrials "while reducing your risks." Needless to say, no newsletter among the 125 I currently monitor on a rigorous basis comes anywhere close to these rates of return.

This deflation of exaggerated advertising is noteworthy for yet another reason. The 20% compounded annual rates of return that the speakers at the Toronto conference were claiming turns out to be about the maximum that any investor can really hope to attain over long periods of time—and even that's extremely difficult. Numerous studies of actual performance (such as FORBES' own mutual fund honor roll) have confirmed that the very top money managers achieve no more than a 20%-to-25% annual rate of return over long periods.

Does this sound modest when compared with the 9% long-term appreciation shown by stocks as a whole? It really isn't modest. In fact, it is quite impressive. Anyone who can achieve 20% over a long period could turn a modest sum into a substantial fortune. Compounded at 20%, for example, $10,000 becomes $60,000 in 10 years and approaches $400,000 after 20 years. Any sensible person would be delighted with that return.

But 20% is a return that few can achieve regularly. That 20% to 25% is the best consistently achievable is also confirmed by the results of my *Hulbert Financial Digest*'s monitoring of investment newsletter portfolios. The best-performing of any of the services I have monitored since mid-1980, Martin Zweig's *The Zweig Forecast,* achieved its number one ranking with an average annual compounded rate of return of 21.7%. In fact, Zweig's is the only newsletter among those monitored since 1980 with a current annual average compounded return that exceeds 20%.

Long-term track records in excess of annual returns in the range of 20% to 25% are so rare, in fact, that I get apprehensive when I see them. Prior to last October's crash, for example, the best-performing newsletter since 1980—Al Frank's *The Prudent Speculator*—had an average compounded annual rate of return for seven years in excess of 30%. But in the October massacre his portfolio lost nearly 60% of its total value *(see my Dec. 14, 1987 column).* Frank's portfolio has recovered strongly since then, making it the second-best performer after Zweig. But his average compounded rate of return weighs in at only 18.3%.

Were the more realistic claims of the Toronto conference a reflection of a broader change in the investment community? Could be. Earlier years are much better represented in my file of exaggerated advertising claims than is 1988. Granted, this phenomenon might simply be a reaction to last October's crash, which was enough to bring humility to even the largest ego. But it also may be that investors have learned to demand respect.

Interestingly, the Toronto audience did not seem upset at the advisers' diminished expectations and claims of "only" 20% per year, which is a good sign. If investors have more realistic expectations—if they come to understand that a consistent 20% return is great and 50% impossible—then they are likely to do better. They are less likely to be suckered into strategies that have both promises of profits and intolerably high levels of risk—and the investment letters industry will be less likely to tout them. ■

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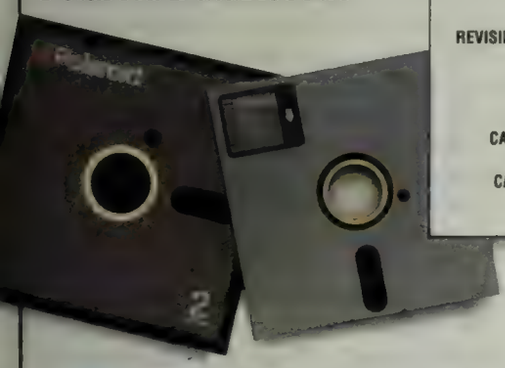

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Edited by Thomas Jaffe

Drought play

There's an argument going around that a smaller 1988 harvest resulting from the drought will hurt rail shipments. This assumes that higher prices stemming from catastrophic crop damage could make U.S. grain less attractive to overseas buyers, relative to Brazilian and Argentinian grains. But according to analyst Andy Petery of Morgan Stanley, the South American harvest came in six months ahead of the North American crop, so the Latin suppliers cannot supplant any U.S. shortfall. Come October, he thinks the world will have to look to the U.S. for supply. With higher prices, he expects all production and grain in storage to be sold and an unusually large movement of grain to take place. Rather than hurt the grain-hauling railroads, Petery thinks he may have to raise his earnings estimates for them. Indeed, shipments through May were up 23% year over year to record levels, on the strength of exports from existing stocks.

Railroads, which compete with barges in grain transportation, also are benefiting from the low water levels that have all but closed the lower Mississippi, Ohio and Missouri rivers. Shipments usually moved by lower-cost barges are being rerouted by rail at higher rates. On another front, the drought has been accompanied by a record heat wave. This should lead to increases in power usage, coal consumption by utilities and coal shipments to those utilities by railroad.

Taking on grain at Albion, Neb.
Earnings for the long haul?

Which of the rail stocks does Petery like? Basically, the principal grain-hauling railroads. As of the second quarter, these were Atchison, Topeka & Santa Fe, part of Santa Fe Southern Pacific (recent NYSE price, 20¼); Burlington Northern (69½); Chicago & North Western, whose parent is CNW Corp. (27¾); IC Railroad, belonging to IC Industries (32); and Union Pacific (63⅜). Burlington and UP are on Morgan's buy list.

Recovery

The slowdown in revenue growth at information services giant Dun & Bradstreet Corp. has been dramatic, from 16.3% in 1984 to 7.9% last year. Initially, investors paid the change in growth little mind. But now they are paying attention. For most of 1987 until the crash, D&B's 186 million NYSE shares outstanding marked time between 60 and 70, then dropped to 44½ in October, and since have recovered to only 48⅞.

What went wrong with $3.9 billion (sales) D&B? Key franchises were hit by severe competition simultaneously, says analyst Joseph Laird Jr. of Hambrecht & Quist. Some of the regional Bells began to publish their own Yellow Pages, going after D&B's Reuben H. Donnelley division. In market research, A.C. Nielsen faced a strong challenge from Information Resources, Inc. Nielsen media research was busily fending off AGB Television.

Carol Wright, a leader in direct mail co-op coupon programs, has been losing market share to MetroMail, among others. Dun & Bradstreet's official airlines guides also have been losing share to the airline industry's own reservation systems.

But Laird says earnings growth is picking up again. Donnelley lost the Philadelphia and Pittsburgh Yellow Pages markets to Bell Atlantic, but in other cities BellSouth and Southwestern Bell have failed to dislodge the D&B unit. In marketing research, Nielsen cut prices, locking potential Information Resources customers into Nielsen's Scantrack product at a time when IRI couldn't counter because it was spending heavily to get its competitive InfoScan product off the ground. In media research, the three major TV networks have signed new three-year contracts with Nielsen's people meter service.

Then there are D&B's new franchises. Last year it paid $1.6 billion for IMS International, virtually the only worldwide competitor in syndicated pharmaceutical information. The company also has broadened its base in financial information by acquiring Interactive Data Corp.

In 1988 Laird expects earnings to be up only 5%, to $2.70 a share, but the following year he's looking for a 20% gain, to $3.23. So at recent prices the stock is selling for 15 times anticipated 1989 earnings. That's not cheap, but it is D&B's lowest P/E since the mid-1980s.

Logiconly speaking

Ford's aerospace business agreed in May to acquire $314 million (sales) BDM International, which provides professional and technical services to the government. This left Torrance, Calif.-based Logicon, Inc. as the leading independent public company in the field. Analyst Michael Lauer of Kidder, Peabody took one look at the hefty $425 million Ford is paying for BDM and concluded that Logicon stock—recent NYSE price of 20⅛—is a screaming bargain.

The $218 million (sales) Logicon does esoteric kinds of defense work. It will, for example, be updating elements of the targeting and control software for the Peacekeeper ICBMs. It also has the job of developing simulator systems for the cruise missile. Some contracts are clinkers, though. Logicon lost heavily on the simulator system it produced for the Awacs surveillance plane. It was forced to take a $5 million writeoff on the system in fiscal 1987. That devastated earnings—$1.27 a share for the year, versus $2.10 the previous year.

In fiscal 1988 (ended Mar. 31), Logicon took a final $3.5 million writeoff on the Awacs simulator program. Even so, Lauer notes, Logicon was able to report $1.93 a share. Now backlogs are at a record high, $267 million, and for the current fiscal year, ending next Mar. 31, Lauder is looking for earnings of $2.40 a share. In addition, there is no long-term debt, and $3.25 a share of cash in the

till. A stock buyback is under way.

Based on Ford's purchase of BDM International, Lauer thinks Logicon is worth $38 a share, nearly double the current price. Meanwhile, with the stock trading at just 8 times estimated earnings for the current year, Logicon is carrying its lowest P/E multiple since the early 1980s. There are 4.5 million shares; insiders own only 11%; and Ford may wish it had bought Logicon instead of BDM, which has since been mentioned prominently in the growing Pentagon procurement scandal.

Good Guy buy

There are signs that the construction industry's long slide has finally hit bottom. Backlogs are rising, prices improving. Analyst John Rast of St. Louis' Burns, Pauli & Co. recommends playing the turn by buying shares of little-known but major league Guy F. Atkinson Co. of California (1987 sales, $968 million). Recent o-t-c price: 16⅞.

Profits at San Francisco-based Atkinson tanked in the mid-1980s, sinking from a record $2.36 a share in 1984 to 25 cents a share last year. But Rast expects a recovery to $1.10 in 1988. Atkinson's backlog currently stands at roughly $900 million, including more than $300 million in contracts to build pulp factories in Canada. The company also gets its fair share of public works jobs. A couple of examples of recent bids it's won are a $30 million contract to build a minimum security prison in California and a $50 million contract to construct a tunnel in Maryland.

Meanwhile, Atkinson has interests in auto parts, pipe distribution and oil and gas drilling. Of all of its nonconstruction activities, Rast sees as most promising a joint venture in hazardous waste management, called AWD Technologies, which Atkinson entered last year with Dow Chemical and Woodward-Clyde Consultants. In contrast to conventional waste removal methods, the firm specializes in returning hazardous substances to a benign state.

You'll need patience on this one. While Rast has no doubt that earnings will recover to $2-plus a share over the next two to three years, he counsels that Atkinson is a stock for long-term investors only. A takeover candidate? Unlikely. The founding Atkinson family and related parties control some 40% of the nearly 8.8 million shares.

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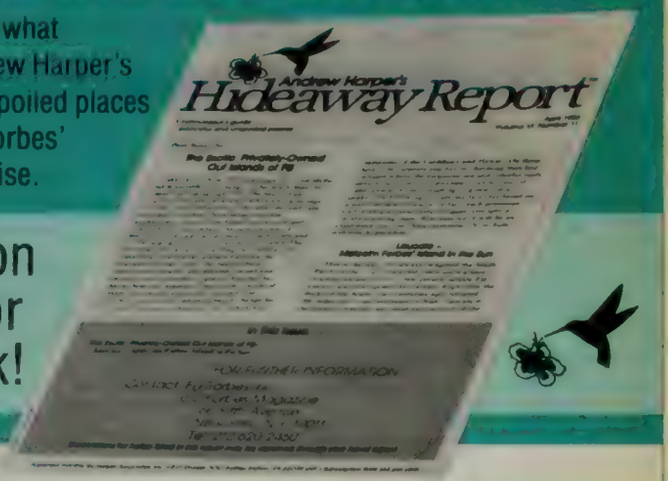

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Forbes Index

INDEX OF COMPANIES COVERED IN NEWS STORIES AND BY THE COLUMNISTS IN THIS ISSUE. EACH REFERENCE IS TO THE FIRST PAGE OF THE STORY IN WHICH THE COMPANY NAME APPEARS.

ABT Associates ... 200
Acuson ... 262
Advanced Micro Devices ... 70
AEG ... 38
Aer Lingus ... 78
AGB Television ... 270
Alamo ... 184
Alcoa ... 26
Alitalia ... 78
All American Television ... 198
AM International ... 64
American Brands ... 38, 40
American Couplings ... 72
American National Cellular ... 41
AMR (American Airlines) ... 275
André ... 184
Anheuser-Busch ... 262
Antartic Investment (Hyatt) ... 12
Apple Computer ... 182
Ashland Oil ... 258
Ashton-Tate ... 266
Asko Deutsche Kaufhaus ... 208
Associated British Foods ... 208
AT&T ... 41, 70
Guy F. Atkinson ... 271
Atlantic Richfield ... 181
AWD Technologies ... 271
Balis Zorn Gerard ... 43
Banco Ambrosiano ... 43
Bank Leumi ... 40
Bank of New York ... 252
Bayly ... 56
BBDO ... 184
Bechtel ... 192
Bell Atlantic ... 262, 270
Bell Telephone System ... 275
BellSouth ... 270
Biomet ... 262
Bird Talk ... 194
Boeing ... 64, 192
Botsford Ketchum ... 184
Braniff ... 72
Bridgestone ... 240
British Airways ... 78, 208
British Petroleum ... 44, 50, 240
British Telecommunications ... 208
Alex. Brown & Sons ... 64
Burlington Northern ... 270
Burns, Pauli ... 271
Businessland ... 12
Cable & Wireless ... 88
Campbell Soup (Swanson) ... 184
Campeau ... 240
Cannon Group ... 43
Canterra Energy ... 88
Capital Cities/ABC ... 198
Caterpillar ... 262
Cellular ... 41
Charter ... 84
Chase ... 204
Chester, Pa. bonds ... 261
Chevron ... 258
Chevron (Gulf Oil) ... 26
Chrysler ... 78
CIC Asset Management ... 262
Cincinnati Milacron ... 192
Citicorp (Lynch, Jones & Ryan) ... 204, 252
CNW ... 270
Coca-Cola ... 190, 248, 262
Colgate-Palmolive ... 38
Combustion Engineering ... 192
Commonwealth Edison ... 10
Comcast ... 41
Computer Associates ... 266
ComputerLand ... 12
Con Edison ... 262
Conrail ... 208
Continental Communications ... 41
Control Data ... 248
Cooper Industries ... 262
Corroon & Black ... 200
CRL ... 72
Cross & Trecker ... 33
Crown Publishers ... 196
Dalgety ... 198
Dee ... 208
Deere ... 262
Den-Mat ... 190
Digital Equipment ... 182, 264
Christian Dior ... 56
Dolphin Books ... 23
Dow Chemical ... 271
Dow Jones ... 84
Dow Jones (*Wall Street Journal*) ... 16
Dresser Industries ... 258
Drexel Burnham Lambert ... 40
Dun & Bradstreet ... 262, 270
Dun & Bradstreet (Dataquest) ... 70
East Baton Rouge Mortgage Finance Authority ... 261
Economic & Management Consultants International ... 41
A.G. Edwards ... 50
ENI ... 43
Entre Computer ... 12
Ernst & Whinney ... 181
Exxon ... 44, 208, 248
Farah ... 56
Federal Express ... 264
Fidelity funds ... 50
Fluor ... 192
Ford Motor ... 19, 78, 208, 258, 270
Gannett (*USA Today*) ... 41, 44
GE ... 38
GE (Kidder, Peabody) ... 270
Genentech ... 182
General Motors ... 26, 78, 184, 192, 198, 208, 258, 266, 275
General Signal ... 262
Gibbons, Green & Rice ... 275
Gillette ... 248
GMF Robotics ... 192
Goldman, Sachs ... 200
Government National Mortgage Association ... 261
W.R. Grace ... 208
Guardian Life Insurance ... 261
Guinness ... 40
Gulf & Western (Paramount Pictures) ... 198
Gulf & Western (Simon & Schuster) ... 22
Haggar ... 56
Hambrecht & Quist ... 270
Hanes ... 56
Harcourt Brace Jovanovich ... 44
Harley-Davidson ... 19
Harmony ... 204
Harris/3M Document Products ... 200
Hattori Seiko ... 204
HCC ... 12
H.J. Heinz ... 275
Henkel ... 38
Hillsdown Holdings ... 208
Hillside Associates ... 262
Henry Holt ... 23
Hulbert Financial Digest ... 182, 268
Husky Oil ... 88
Hutchison Whampoa ... 88
Hyundai Motor ... 208
Iberia ... 78
IBM ... 70, 182, 192, 200, 208
IC Industries ... 270
Information Resources ... 270
Inland Steel ... 33
Intel ... 70, 182
International Technology ... 60

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Interpart ... 43
Investment Seminars ... 268
Investors Intelligence ... 257
IRI Group ... 208
Jaguar ... 252
Jerrico (Long John Silver's) ... 198
Jockey ... 56
KaiserTech ... 33
Kalman Floor ... 192
Kanebo ... 38
Kao ... 38
Katy Industries ... 72
Kemper ... 262
KLA Instruments ... 33
Kohlberg Kravis Roberts ... 275
Komori Printing Machinery ... 64
Korn-Og Foderstofkomp ... 204
Kubota ... 252
Kuwait Petroleum ... 208
Legg Mason ... 50
Levi Strauss ... 56
Lion ... 38
Lipper Analytical Services ... 50
Logicon ... 270
Lubbock, Tex. Housing Finance ... 261
Lufthansa German Airlines ... 78
Marriott ... 168
Mary Kay ... 64
MasterCard International ... 181
Maxwell Communication ... 44
McCann-Erickson Hakuhodo ... 38
McDermott International ... 208
McDonald's ... 168, 198, 248, 262
McGraw-Hill ... 182
MCI ... 41, 262
Melia International ... 43
Mergers & Acquisitions ... 240
Merrill Lynch ... 12, 50, 252, 261
MetroMail ... 270
MGM/UA Communications ... 43
MicroAge ... 12
Mitsubishi ... 208
Mobil ... 200
Moët & Chandon ... 184
Money ... 60
J.P. Morgan ... 252
Morgan Stanley ... 50, 204, 270
Motorola ... 192
National Gypsum ... 192
National Westminster Bank ... 248
New Balance ... 196
New World ... 69
New York Post ... 22, 44
New York Times ... 18, 70
Nike ... 196
Nippon Steel ... 33
Nippon Telegraph & Telephone ... 208
Nipsco Industries ... 262
North Carolina Eastern Municipal Power ... 261
Nucor ... 262
Nynex (New York Telephone) ... 72
Ocean Drilling & Exploration ... 258
Ocean Pacific ... 56
Ogilvy & Mather ... 184
Orion ... 69
Pacific Enterprises ... 19
Pacific Financial ... 262
Pacific Gas & Electric ... 19
PaineWebber Group ... 50
PaineWebber Group (Braniff International) ... 12
Pan Am ... 248
PepsiCo ... 248, 266
Perdue Farms ... 198
Perrier ... 184
Petrobrás ... 10
Pets Supplies Marketing ... 194
Phillips Petroleum ... 258
Pillsbury ... 84
Piper Jaffrey ... 40
T. Rowe Price ... 262
Primerica (Smith Barney) ... 12, 60
Princeton Portfolios ... 182
Principal Financial Group ... 262
Procter & Gamble ... 38
The Prudent Speculator ... 268
Public Service Enterprise Group of New Jersey ... 262
Putnam funds ... 50
Quaker State ... 258
Ramada ... 12
Raymond James ... 50
Reebok ... 196
Reed International (*Variety*) ... 12
Riklis Family ... 40
Hal Riney & Partners ... 184
RJR Nabisco ... 192, 200
Rockport ... 196
Rollins ... 168
L.F. Rothschild ... 43, 69
Royal Dutch/Shell ... 44, 208, 262
Sabena ... 78
Sabic Marketing ... 199
Safeway ... 198
Salomon ... 10
Sandler, Travis & Rosenberg ... 56
Santa Fe Southern Pacific ... 270
Scott Paper ... 264
Scudder ... 262
Seagram ... 240
Sears, Roebuck (Dean Witter Reynolds) ... 60
Security Pacific ... 184
Seidman & Seidman/BDO ... 84
Servicemaster ... 168
Shearson Lehman Hutton ... 50
Shiseido ... 38
Siracusa Calcio ... 43
Southwestern Bell ... 270
Sports Illustrated ... 190
Squibb ... 84, 266
Standard Oil ... 44
Stone Container ... 266
Sunkist Growers ... 10
Telefónica Nacional ... 204
Tengelmann (A&P) ... 198
Texaco ... 88
Texaco (Getty Oil) ... 44
Time Inc ... 44, 69
Toyota Motor ... 208
Transco Energy ... 258
Unilever ... 38, 264
Union Carbide ... 26
Union Pacific ... 72, 270
Unisys ... 266
United Fashions ... 56
United Technologies ... 70
USAA ... 181
Vestron ... 69
S.G. Warburg ... 252
Ward Howell International ... 200
Warnaco ... 56
Warner Communications ... 43
Washington Post (*Newsweek*) ... 16
Western Publishing ... 44
Westinghouse Electric ... 56
Westinghouse Electric (Group W Productions) ... 198
Westwood One ... 10
Whirlpool ... 38
Wilmington Trust ... 262
Woodward-Clyde Consultants ... 271
The Zweig Forecast ... 268

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Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

Sixty years ago in FORBES

(From the issue of August 1, 1928)

Early upscale El Paso "tourist camp"

"The selection of John J. Raskob as the chairman of the National Democratic Committee should have a reassuring influence upon business sentiment. With Herbert Hoover as the Republican standard bearer and the chairman of General Motors Finance Committee managing Governor Smith's campaign, nothing disturbing should occur in the political arena between now and November."

Fifty years ago

(From the issue of August 1, 1938)

"Steel production rises sharply. Several automobile production lines shut down for new-model changeovers; but retail buying holds steady, producers see chance to start new automotive year with new and used car stocks cleaned up. Textile mills in North and South recall workers. Shoe factories report better sales, higher output."

Flip young (31) William McChesney Martin, first outsider to run the Big Board

"If all Bell Telephone System employees and their families lived in a single city, it would be the sixth largest in the U.S.—just below Los Angeles and considerably ahead of Cleveland."

Twenty-five years ago

(From the issue of August 1, 1963)

"After six lean years the U.S. domestic airlines are showing across-the-board improvement. Airline after airline was reporting record-breaking traffic for June, with all the signs pointing toward a strong July as well. Even American Airlines' President C.R. Smith, whose policy of pessimism was especially thick . . . was constrained to report a record number of passengers carried in June."

The airlines suddenly started to snap back in 1963 after a six-year slump

"Just ten years ago—at 10:01 a.m. on the morning of July 27, 1953, to be exact—a few strokes of the pen at a place called Panmunjom brought to an end more than three years of fighting between forces of the U.N. and those of Communist North Korea powerfully aided by Red China. The scratching of pens which stopped this slaughter also marked the beginning of the longest period of 'normalcy' the U.S. has known since World War I—a period in which there has been no major war, no major depression."

"Knowing that drought means poor crops, and that rainfall in the Midwest this year had been far below normal, speculators traded a record 149 million bushels of soybeans on a single day early last month on the Chicago Board of Trade. Then down came the rains. And down came soybean futures prices to $2.55 to $2.60 a bushel late last month, about 15% below their recent highs."

Ten years ago

(From the issue of July 24, 1978)

"It often happens this way: A big new trend comes along and the established firms miss out on it. That's what happened to a large degree in leveraged buyouts. Two of the most active outfits in the business are relatively new, started by people who sensed early what was happening and moved while the big investment houses had their attention engaged elsewhere. The two: Kohlberg Kravis Roberts & Co. and Gibbons, Green & Rice, both New York-based. They screen hundreds of candidates every year among which only a few ever get beyond the analysis stage. Moreover, they act as principals in virtually every transaction by committing part of their firm's capital for an equity interest in the buyout."

"Thanks to the notorious ruling No. 8 of the Financial Accounting Standards Board, corporate earnings reports are more confusing than ever. The rule tends to distort profits by requiring that companies include gains or losses on foreign assets caused by currency fluctuations. Take H.J. Heinz' latest report, for the quarter ended May 3. It reported that Heinz' profits were 18.3% ahead of a year ago's, at $99.2 million. But read on. It also showed that Heinz had a $6.7 million gain from currency changes this year vs. a $10.2 million currency loss last year. Filter out that FASB-8 nonsense and the whole thing seemed a wash. . . .

"We appealed to Heinz' bosses to straighten us out. 'Forget currency translation figures and everything else extraneous,' said President Anthony J.F. (Tony) O'Reilly, 'and our operating income in the quarter was up 7.5%.' "

Thoughts
on the Business of Life

People seem to fight about things very unsuitable for fighting. They make a frightful noise in support of very quiet things. They knock each other about in the name of very fragile things.
G.K. Chesterton

Where most of us end up there is no knowing, but the hellbent get where they are going.
James Thurber

Discontent is the first step in the progress of a man or a nation.
Oscar Wilde

Every divergence deserves to be cherished, simply because it widens the bounds of life.
Karel Capek

I can't imagine a human being so hard up for something to do as to quarrel with me.
Joseph Conrad

It is easier to fight for one's principles than to live up to them.
Alfred Adler

In every age of well-marked transition there is the pattern of habitual dumb practice and emotion which is passing, and there is the oncoming of a new complex of habit.
Alfred North Whitehead

There is no more certain sign of a narrow mind, of stupidity, and of arrogance, than to stand aloof from those who think differently from us.
Walter Savage Landor

A fury of goodness leads somewhere.
Earl Shorris

Discontent, ferment, class clashes have invariably attended great forward movements. Reforms are not born of complacency, of meek resignation, of sodden dourness. They are the fruit of well-directed strife, struggle and achievement, of confidence in the justice of a cause, of faith in that eternal justice which suffuses the scheme of things.
B.C. Forbes

It is not necessary to understand things in order to argue about them.
Beaumarchais

I see great changes taking place every day, but no changes at all every fifty years.
Finley Peter Dunne

Nothing that is proved is obvious; for what is obvious shows itself and cannot be proved.
Joseph Joubert

To great evils we submit; we resent little provocations.
William Hazlitt

Our nature consists in motion; complete rest is death.
Blaise Pascal

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My sad conviction is that people can only agree about what they're not really interested in.
Bertrand Russell

Democracy means government by discussion, but it is only effective if you can stop people talking.
Clement Richard Attlee

The world is divided into people who do things—and people who get the credit.
Dwight Morrow

I have the true feeling of myself only when I am unbearably unhappy.
Franz Kafka

Most human beings have an almost infinite capacity for taking things for granted.
Aldous Huxley

A Text . . .

And if a kingdom be divided against itself, that house cannot stand.
Mark 3:24

Sent in by Dorothy Albert, St. Louis, Mo. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

The more you live, the less useful it seems to have lived.
E.M. Cioran

The only true infidelity is for a live man to vote himself dead.
Herman Melville

I know I am among civilized men because they are fighting so savagely.
Voltaire

August 8

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THE COMEBACK IN CHEMICALS — THIS UPTURN HAS STAYING POWER

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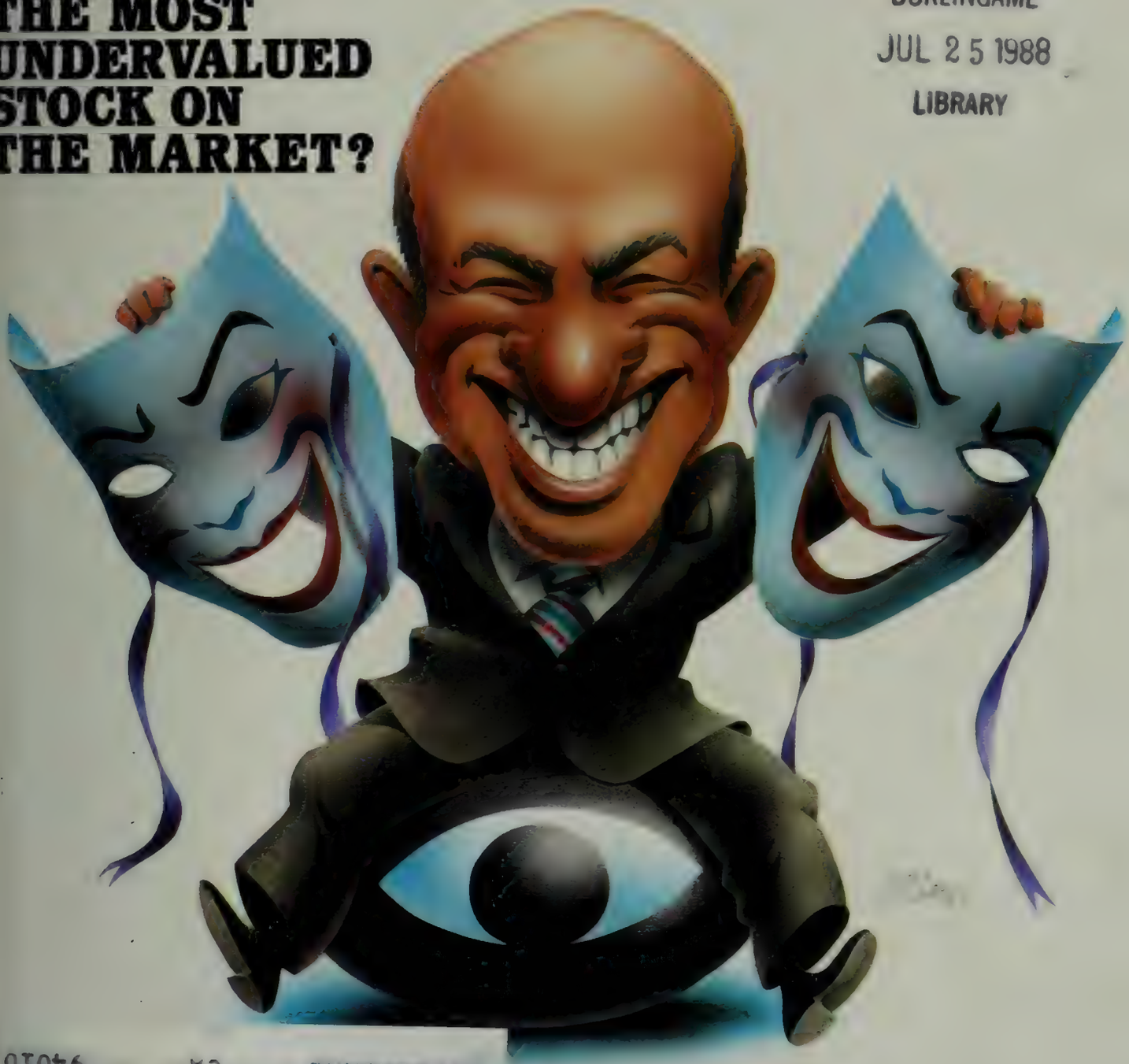

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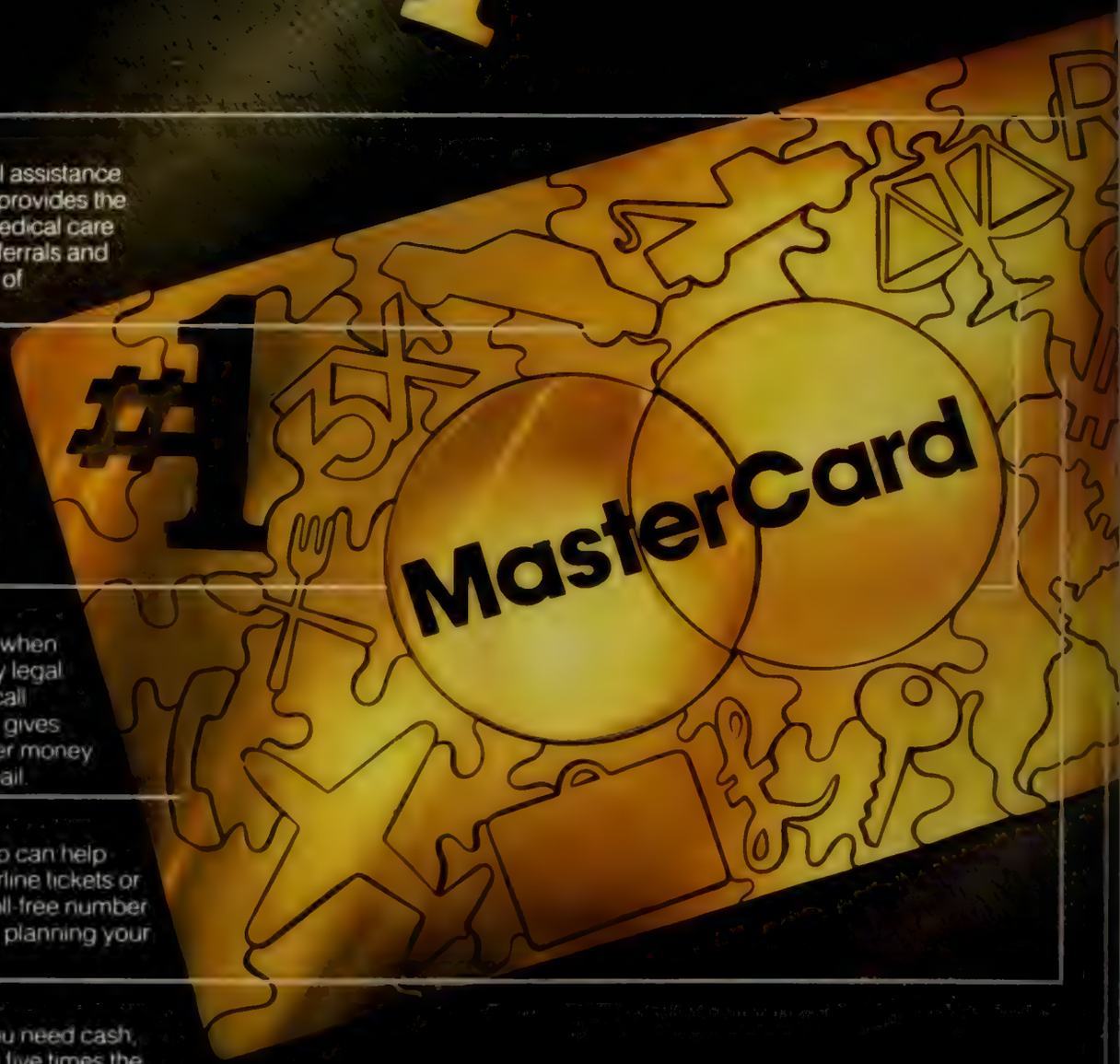

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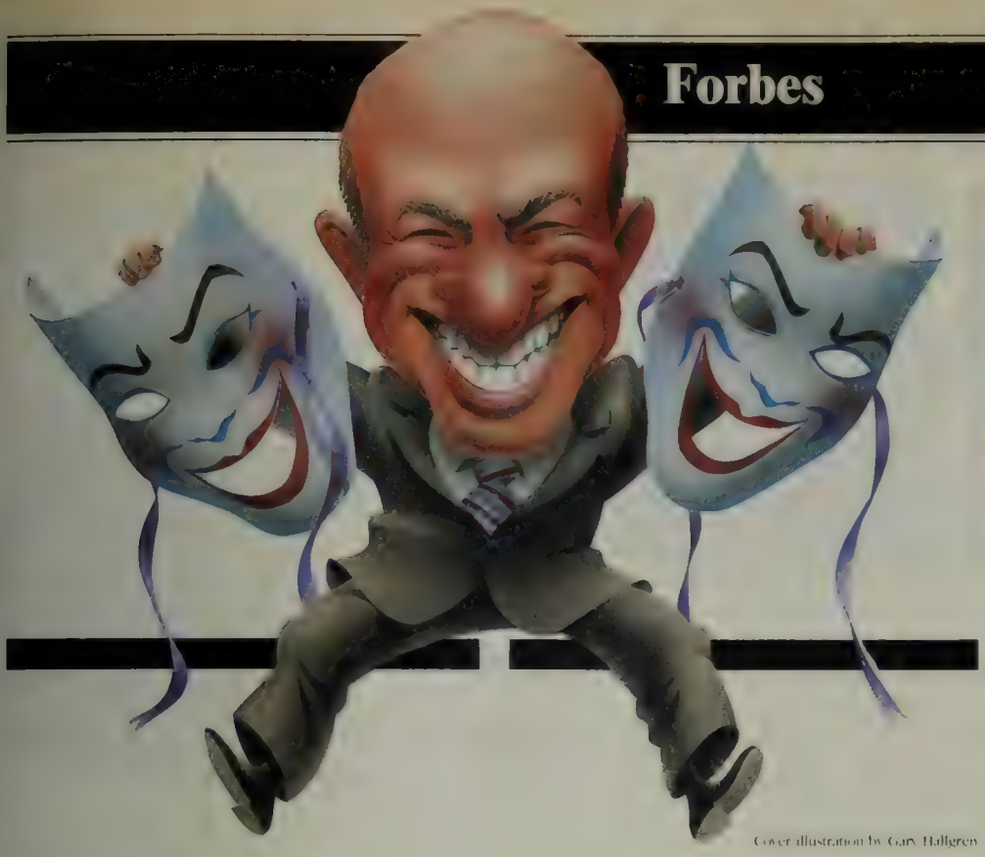

Cover illustration by Gary Hallgren

34 *The next U.S. drug epidemic?*

AUGUST 8, 1988
VOLUME 142
NUMBER 3

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 132 AND 133.

COVER STORY

76 Behind All That Shuffling And Reshuffling At CBS
By Subrata N. Chakravarty
What are Larry Tisch's plans for CBS? These and other questions make CBS look like one of the cheapest stocks on the Big Board. Is it cheap, or does it only seem that way?

COMPANIES

40 CoreStates Financial Corp.
By Janet Novack
CoreStates' new chief executive runs a regional bank whose financial performance is the envy of the business.

46 Cyprus Mines
By James Cook
Most nonoil acquisitions by big oil ended in disaster. Not Cyprus Mines.

50 Toronto-Dominion Bank
By Edward F. Cone
Unconventional among the Canadian banking giants, especially in being so profitable.

52 The Up & Comers: North American Watch Corp.
By Phyllis Berman
Gedalio Grinberg helped make affluent Americans conscious of what they wear on their wrists.

54 The Up & Comers: Bi-Lingual Corp.
By Richard Phalon
Japan has kept women out of serious business careers. Hiroko Minami is showing what this immense untapped resource can do.

61 Sears, Roebuck & Co.
By Steve Weiner
It wants the financial service business, but maybe not the brokerage business.

62 Knight-Ridder Inc.
By John H. Taylor
For years it's had good newspapers but mediocre financial performance. Can the new man change the latter?

73 Pacific Resources, Inc.
By Marc Beauchamp
At first oil refining was just a way to supply its utility operations.

88 General Mills Inc.
By Steve Weiner and Janis Bultman
Lean again, it is serving up fat returns on Cheerios, and Hamburger Helper. The next course? Good question.

90 United Missouri Bancshares Inc.
By Rick Reiff
Banker Crosby Kemper talks a global game, but when lending he stays prudently close to Kansas City.

INDUSTRIES

34 Drugs
By Allan Dodds Frank
Are the addicts getting wary of crack and cocaine? The drug lords have a promising—for them—new product.

39 Shipping
By Ralph King Jr.
It is coming back, but with new names.

84 Airlines
By Richard Phalon
The carriers with Tokyo routes are booming.

INTERNATIONAL

60 Extra! Farmers Read Adam Smith!
By Peter Fuhrman
Holland's flower farmers have never had it so good.

INVESTING

37 Good Chemistry
By Howard Rudnitsky
Chemical industry assets are priced handsomely while shares of the chemical giants sell at a discount.

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52 *Luggage to be seen with*

84 *The bottleneck at Narita*

88 *General Mills' Atwater*

116 Statistical Spotlight: Well-Rounded Stocks
By Evan Sturza
Some stock-picking screens look for one strong suit. Here's one that looks for several fairly good ones.

117 The Funds: Money Costs
By Ruth Simon
All money market funds look alike—until you look at their expense ratios.

130 Streetwalker
MCA Inc.; Hanson Plc.; Interim Systems Corp.; Global Marine Inc.

GOVERNMENT

80 The FDIC's Learning Curve
By Allan Sloan
A government bureaucracy is learning to think the way arbitragers do.

REGIONS/VANCOUVER

48 Yacht People
By Ellen Paris
Hong Kong Chinese are creating a Vancouver real estate boom.

PROFILE

86 "I'm Not Finished Yet"
By William P. Barrett
Meet Alwaleed Bin Talal Bin Abdulaziz Al Saud, Saudi Prince and self-made billionaire—at age 33.

SCIENCE & TECHNOLOGY

92 "Everybody Wanted The Second Plant"
By James Cook
Inventing a better mousetrap is one thing. Getting others to use it is quite another, as Ken Pye is discovering.

96 Commentary
By Esther Dyson
Coordination technology.

MARKETING

98 "Full Color And In Motion"
By Eric Schmuckler
How do you get people to read books in the television age? Leonard Riggio's answer: Sell, and sell hard.

PERSONAL AFFAIRS

100 Collectibles Are Not Forever
By Michael Fritz
Collecting things is a nice hobby. As a way to make money, it's often a rigged game. Also: Sotheby's Art Market Trends.

TAXING MATTERS

110 Hit List
By Laura Saunders
When politicians raise taxes they are sure to hit corporations with a host of "loophole closers."

NUMBERS GAME

111 Cash Now?
By Penelope Wang
Defense contractors face a multi-billion-dollar profit pinch.

DEPARTMENTS

6 Side Lines
8 Follow-Through
12 The Informer
14 Readers Say
17 Fact and Comment
24 Other Comments
27 Fact and Comment II
135 Flashbacks
136 Thoughts

COLUMNISTS

119 Ben Weberman
120 Susan Lee
122 Kenneth L. Fisher
123 Mark Hulbert
124 Ashby Bladen
125 Alan Reynolds

MONEY & INVESTMENTS

31 What's Ahead For Business
32 The Forbes Index
113 The Forbes/Wilshire 5000 Review

FACES BEHIND THE FIGURES

106 **Andrew Kalotay,** *Salomon Brothers*
106 **George Kaufman,** *Real estate developer*
108 **Harold McMaster,** *Glasstech, Inc.*
108 **Stylianos Panagopoulos,** *National Bank of Greece*

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Bad news from Asia

Allan Dodds Frank traveled to England, Holland, Pakistan, India, Sri Lanka, Thailand and Hong Kong to write "Unwelcome side effects from peace in Afghanistan." Frank, a veteran journalist, did a beautiful job of reporting under tough conditions: 125 interviews across the Indian subcontinent and in the U.S. 120-degree temperatures and a return home with amoebic dysentery. His findings, however, are discouraging: Yet another illegal drug may soon become epidemic in the U.S., just when people are becoming wary about crack and injected heroin. The "new" drug is actually one of the oldest—smokable heroin derived from opium. Probable source: Afghanistan. Probable route: through India and Pakistan.

Can the new drug be stopped? It's hard to see how, he writes. The people of Afghanistan and elsewhere in central Asia have been smuggling skillfully and openly for centuries, perhaps millennia. Says Frank: "Trucks, herds of camels and goats carry everything—electronic equipment, synthetic fabrics, gold, you name it—across the Pakistan border to India. For them, light, high-value drugs are a cinch. They sometimes force the camels and goats to swallow the stuff in small sacks, then disembowel the animals after the border is crossed."

Frank (center) *with Bombay smuggling expert Haji Mastan* (left) *and aide.*

Frank says smugglers don't need sophisticated banking to move money. They use the ancient "Hawala" or "Hundi" systems. A customer presents local currency to a man in the Peshawar bazaar—a chap who often sits in the open on a rug with two telephones at his side. The intended beneficiary in Karachi, Bombay, Colombo, maybe even New York picks up the money from an agent of the Peshawar moneychanger, paying a transmission fee of as little as 1%. It's all done on trust, and on tribal and family relationships more dependable than contracts and law courts. The recipient is identified with a code word or perhaps half a bus ticket, the agent having the other half.

In interviews across Asia, top local police officials complained to FORBES that political corruption hinders effective enforcement of antidrug laws. Lalith Athulathmudali, Sri Lanka's Harvard Law School-educated Minister for National Security, put the problem simply: "A lot of people in high places cannot explain their ostensible wealth."

Unfortunately for the U.S., many nations that tolerate and harbor the drug trade are countries that the U.S. wants as friends. Remember all this when you evaluate the simplistic proposals you hear from politicians about how they will appoint drug czars, call out the Army and otherwise "stop being soft" on drugs. Frank's chilling story starts on page 34.

James W. Michaels
Editor

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Follow-Through

Cindy Charles/Gamma Liaison

Don't cry for me, General Motors

Dec. 1, 1986

With the high yen crimping sales and profits, Toyota Motor Corp.'s outlook seemed glum 20 months ago. But FORBES pointed out that Japan's biggest automaker had strong cash flow, little debt and was boosting capital spending as its rivals were cutting back. Despite Toyota's grumbling, we saw hidden strengths.

Toyota is still struggling overseas, but less so than some other Japanese carmakers. Better news has been an upsurge in auto sales in Japan, fueled by robust consumer spending. Toyota has expanded its domestic market share to 31.7% in the first five months of this year, from 30.4% in 1986. Toyota is among Japan's most profitable carmakers, with operating margins of 6%. Its balance sheet is impressive, too: $11 billion in cash and a debt-to-equity ratio of only 10%. "If other Japanese firms wanted to start a price war, Toyota would prevail," says Benjamin Moyer of Merrill Lynch in Tokyo.

Moyer figures Toyota's net income rose 17%, to $2.3 billion (at current exchange rates), for the fiscal year ended June 30, on sales of $54 billion. That would be Toyota's first earnings rise since 1985. Earnings are likely to keep rising this fiscal year and beyond as Toyota, a leader in Japan's luxury car market, gets a boost from a proposed reduction of a heavy Japanese tax on luxury cars.—**Neal Santelmann**

Sharp no more

Feb. 10, 1986

The trouble with a small business isn't getting it going but keeping it growing. So said FORBES in 1986, referring to The Sharper Image, a San Francisco mail-order outfit that was opening stores nationwide to sell its fancy gadgets for home and office. Founder Richard Thalheimer had predicted that the firm would have sales of $200 million by 1987, up from $87 million in 1985. FORBES was skeptical, suggesting that fast growth and higher profits might be incompatible.

So far, the record has been mixed. The company's sales fell far short of Thalheimer's goal, amounting to $161 million for the fiscal year ended Jan. 31. Profits, meanwhile, jumped to $5.6 million, for a 3.5% aftertax margin, as against 1.6% in 1985.

But now costs appear to be taking their toll. For the fiscal first quarter ended Apr. 30, Sharper Image reported a $1.2 million loss, versus a modest $72,000 loss a year earlier. With 8 new stores planned by year-end, bringing the total to 60, further cost pressure is likely. Hambrecht & Quist analyst Mark Bressler says Sharper Image could post another $750,000 loss for the second quarter and adds that the company will be lucky to make $165,000 in the third quarter. That compares to profits of $366,000 and $257,000 for last year's second and third quarters, respectively.

Sharper Image had a fantastic Christmas season last year. But even with new stores, profits for the current fiscal year are likely to trail last year's $5.6 million—perhaps substantially. Lesson for entrepreneurs: Expand with caution.—**Alyssa A. Lappen**

Patrick Milbourn

Next stop: jail

Dec. 29, 1986

State and federal authorities were closing in two years ago on John Peter Galanis, the international scamster who was thought to have bilked investors of $400 million over 16 years. Galanis told FORBES that he had been misunderstood and had done nothing wrong, but investigators thought otherwise. Even after federal indictments came up last summer and 11 Galanis associates pleaded guilty, the authorities worried that Galanis might yet elude them.

But in July, a federal jury convicted Galanis, 45, of racketeering, securities fraud, tax fraud and bribery in connection with a series of phony oil and gas limited partnerships he had masterminded from 1982 to 1984. Galanis could get more than 15 years in prison and fines of $8 million.

That's not all. Still hanging over Galanis are New York State charges of fraud, grand larceny and conspiracy stemming from real estate limited partnerships and an Atlantic City casino redevelopment scam. Galanis plans to appeal the federal conviction and challenge the state charges as well. Nevertheless, the odds are that one of America's wiliest con men will soon be behind bars.—**Kathy Murray**

Robert Wallis/JB Pictures

Splash!

May 4, 1987

There is scandal at Nihon Keizai Shimbun, Inc., Japan's equivalent of Dow Jones & Co. Besides trade journals, magazines and books, the huge company publishes Japan's leading business newspaper, the 2.4 million circulation *Japan Economic Daily* or *Nikkei*. Last year FORBES reported Nihon Keizai was planning to make a big splash in the West. President Kō Morita told us, "International economic reporting shouldn't be the monopoly of Europeans and Americans." But *Nikkei*'s overseas push will come under new leadership. In July Morita, 63, resigned under a cloud.

The stock trading scandal that snared Morita has entangled nearly all of Japan's top politicians, including Prime Minister Noboru Takeshita. Morita reportedly broke company rules by buying shares of Recruit Cosmos Co. in 1984 and selling them at a 300%-plus profit when the real estate firm went public in 1986.

Nikkei executives had adamantly denied staffers ever took money from or invested in companies *Nikkei* covers. But, as FORBES noted, *Nikkei* is so cozy with government and industry that cynics often refer to it as the Nihon Kabushiki Kaisha Shimbun—literally, the Japan Company Daily. Japanese reporters often delay or ignore stories to keep sources happy. In journalism, as in stock market regulation, credibility is everything. The scandal at Nihon Keizai has tarnished its reputation and added to its problems in pushing westward.—**Marc Beauchamp**

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Forbes Informer

Edited by Gretchen Morgenson

Burt the lion-hearted

Hollywood dealster Burt Sugarman has agreed to pay Kirk Kerkorian $100 million for one-quarter of filmmaker MGM/UA. What's he getting for that nice round sum? Not much. A domestic movie business with just about a dozen flicks in the pipeline, an interest in overseas distribution, some 25 films in the MGM library and an interest in four TV series. Sugarman lately has been spending money like water. Earlier this year he paid an astonishing $28.5 million for Guber-Peters, a production company with only $2 million to $3 million in assets. Sugarman made a lot of money

Illustrations by Laura Cornell

buying control of cement company Giant Group and turning it around. Is he about to blow it and then some trying to become a Hollywood mogul?

Clean sweep at the Banker

Times they are a-changing at the *American Banker*, the normally staid daily. Earlier this year the paper's longtime president, Richard Tierney, resigned, and in the past few weeks both Edmund Burke, executive vice president, and James McSurley, circulation veep, checked out. Insiders say the resignations were brought about by *Banker* owner International Thomson, the huge Canadian media conglomerate. Thomson reportedly was unhappy about lagging advertising revenues. Thomson bought the *Banker* in 1983 from the Otis family, which founded the paper, for $58 million. Since then, Thomson, which owns 12 regional newspapers in the U.K. and other publishing ventures, had left the *Banker* to run itself. But, like any unhappy owner, Thomson may be getting involved now that revenues are disappointing. Tierney's replacement as president of the *Banker* was George Landgrebe, a Thomson man.

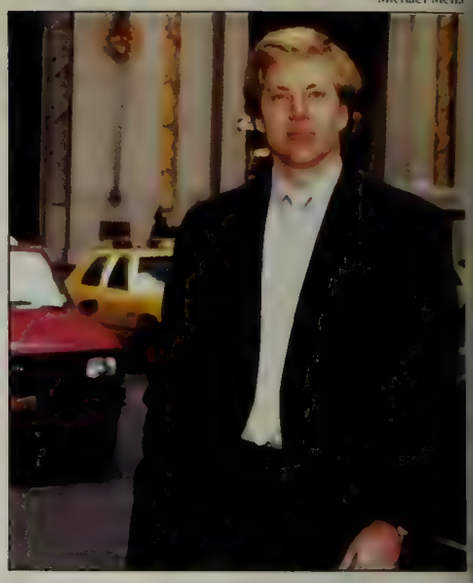
Second-generation raider

Thomas B. Pickens III, the son of you-know-who, has bid for Catalyst Energy Corp., an independent power-producing company based in New York City. This, after Catalyst management had announced its own buyout plans. How do the offers stack up? Management offered stockholders $10.90 a share. Pickens has offered $10.85 a share, or $180 million.

Shareholders aren't throwing their hats in the air over either offer—Catalyst traded as high as 29 last year. Angriest of all, though, are the company's bondholders: $300 million in convertible debt issued by the company is trading around 58 cents on the dollar. Under management's offer, bondholders will likely exchange their paper, though the terms are still undisclosed. But Pickens' bid ignores the debtholders altogether.

What does Pickens see in Catalyst, whose mixed bag of assets includes a coal-fired power plant, hydroelectric facilities, steam producers and a trash-to-energy business? If he bags Catalyst, Pickens will likely hang on to one asset: the Alamito coal-fired power plant. Pickens' sometime partner, Oliver Grace, a distant cousin of W.R. Grace's chairman, J. Peter Grace, tried unsuccessfully to take over Alamito Co. several years ago. Alamito, situated in the fast-growing Southwest and worth some $370 million, is now owned by

Michael Mella



Thomas B. Pickens III
Wonder what he sees in Catalyst?

Catalyst. John Grace, brother of Olive[illegible] says his family isn't in on the Catalys[illegible] deal. Is it just a coincidence?

Ringside at Warner

What's a director doing suing a com[illegible]pany on whose board he sits? Fai[illegible] question. Chris-Craft Chairman Her[illegible] Siegel, who is a Warner board membe[illegible] and controls 21% of the stock, is su[illegible]ing Warner Communications over it[illegible] agreed-on acquisition of Lorima[illegible] Telepictures. The suit claims the dea[illegible] breaches an agreement that Warne[illegible] can never own television stations s[illegible] long as it owns more than 25% o[illegible] Chris-Craft's TV subsidiary. Bu[illegible] sources say that earlier this summe[illegible] the two companies were close t[illegible] working out their differences on th[illegible] deal. Then came the lawsuit.

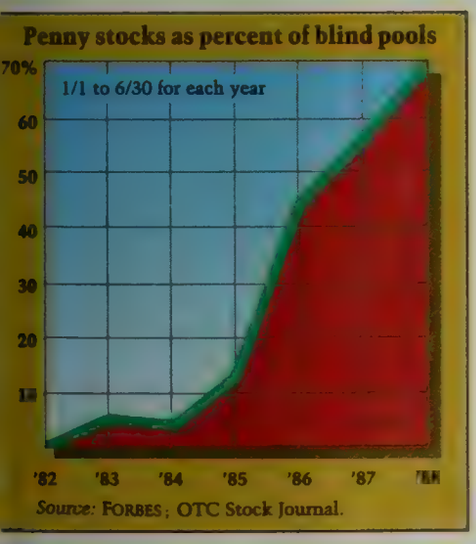
Apparently, it's not the TV station[illegible] that bothered Siegel but the realizatio[illegible] that his enemy, Warner Chairman Ste[illegible]ven Ross, was pulling a fast one on him[illegible] Word is, Siegel learned that Warner'[illegible] superegotistical chairman was plan[illegible]ning to oust two board member[illegible] friendly to Siegel. Siegel, who onc[illegible]

controlled six board seats, is now down to four—including his own—and doesn't want the number dwindling to two. So Siegel's lawsuit seems to have less to do with Lorimar than with his feud with Ross. According to his proxy materials, Ross tried to buy Siegel's Warner stock last year, offering $37.75; but Siegel wanted $45 a share, and nixed the sale. Warner at the time was just $30. He was wise to hang on: Chris-Craft's first-quarter operating earnings were its best ever this year, largely because the company booked $8.3 million in income from Warner. Warner stock now sells at 36⅛.

At Warner's annual meeting last year, Siegel and Ross traded barbs in front of an audience of shareholders. This year's gala, scheduled for Aug. 3 in Columbus, Ohio, should be interesting.—**Fleming Meeks**

No diving, blind pool

New penny stock issues have been one of the lower forms of investment life. And the lowest form of the lowest form have been blind pools, which, as the name implies, are just a corporate name without products, earnings or specific plans. For those who think investors learn from their mistakes, we're sorry to report that



new blind pools are booming. Just five years ago only about 4% of penny stock offerings were blind pools *(see chart)*. In the first six months of this year, an astonishing 70% of them were. Fools and their money. . . .

Junk galore

Want to buy some junk bonds backed by gambling casinos? You'll have plenty of opportunity in the next few weeks. Coming to market are Donald Trump's Taj Mahal in Atlantic City ($675 million), Merv Griffin's Griffin Co. ($325 million), and, reportedly, Golden Nugget ($100 million).

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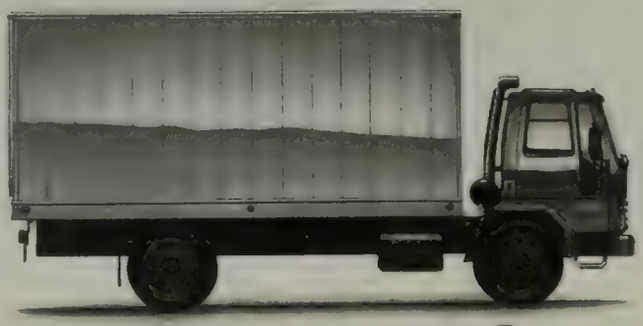

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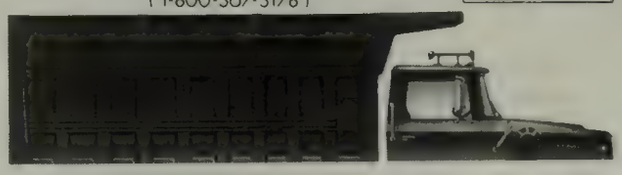

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Readers Say

Please Mr. Postman

SIR: There are times when you produce more "Fact and Comment" than I can handle. But I always read to the end, hoping to find something like "Being in the Forbes Four Hundred does inflate one's mail." *(Fact and Comment, July 11.)*
—Snowden T. Herrick
New York, N.Y.

Fear and loathing

SIR: Re your article "Ministry of fear" *(June 27)*. It is fallacious and misleading to imply that the "moribund" status of the nuclear industry is somehow due to a "minor incident hyped by the media." The nuclear industry destroyed its own credibility by trumpeting "nothing can go wrong" before Three Mile Island (TMI) and then "accidents will happen" afterwards. The lack of off-site damage in no way mitigated public perception that the pre-TMI statements by the industry were dead wrong.
—George M. Kaplan
Reston, Va.

Coulda, woulda, shoulda

SIR: Your story on Brown Brothers Harriman & Co. ("Living in the past," *July 11*) breaks new ground. Now, FORBES feels justified to tar and feather a subject for sins of omission as well as commission. Is it really fair to write exposés on what the subject *might* have been?
—James P. O'Shaughnessy
President,
O'Shaughnessy Capital Management Inc.
St. Paul, Minn.

Good advice

SIR: Sometimes I wonder why I subscribe to FORBES. Your issue of June 27 with the section on The Forbes Money Guide answered that question. It alone was worth all the subscription costs I have paid since 1978.
—Julius C. Deubner
Orinda, Calif.

SIR: Although I normally read FORBES for its entertainment value, I must commend you on The Forbes Money Guide issue. As a retail broker I try to provide the advice and counsel to my clients that help avoid some of the major pitfalls of chasing "hot tips," glamorous concepts and get-rich-quick schemes. Unfortunately, too small a segment of the public understands the value of getting rich slowly.
—Jeffrey M. Menick
Washington, D.C.

War memorials . . .

SIR: Re your July 11 Fact and Comment on Vietnam war memorials, Wisconsin is nearing completion of a statewide Vietnam veterans memorial. Although the Wisconsin memorial will not look like the national memorial in Washington, it will include the names of all Wisconsin veterans killed in the war. Each name is inscribed on a cast-bronze piece of bamboo, each piece to be part of a wind chime when the whole is assembled.
—Kevin Boatright
Platteville, Wis.

H. Allan Sugna

Vietnam Monument in Washington, D.C.

SIR: I agree that those who lost their lives in the service of their country deserve to be remembered by all of us survivors. At the same time, however, wouldn't it be "fitting" to create a nearby monument to the diplomats, ambitious military leaders and greedy arms manufacturers whose efforts caused so many to lose their lives?
—O.W. Cockrell
Beaverton, Ore.

. . . Vietnam vets

SIR: Your story "Nam returnees make good" *(July 11)* gleefully trots out three very atypical Vietnam veterans who have made it big, and seems to imply that the problems suffered by so many others are mythical in nature. Vick, Mixon and Ogden were all in their mid-20s during their tours, considerably older and more emotion ally settled than the average teenag draftee. It also appears that they wer commissioned officers performin functions where they rarely if ev were engaged in actual combat.

When Mixon returned from the wa feeling vaguely frustrated, he merel went down and enrolled in Harvar Business School. Maybe it just goes t prove that for some, war really is goo business.
—Chris Nelson
Rockford, Ill.

SIR: As the daughter of a career A Force officer and wife of a former Ma rine, both of whom served comba tours of duty in Vietnam and both o whom are now viable, well-adjuste members of the private business se tor, I add my appreciation and ap plause to your article. It is a relief t read the acknowledgment due the *ma jority* of Vietnam-era veterans.
—Laura Taylor
Oxnard, Calif.

SIR: I spent nine months as a drafte in the infantry in Vietnam, burne once in a gunpit fire and wounde twice, once bad enough to be sen home. A result of that experience wa an opportunity to finish an undergrad uate degree and obtain a law degre thanks to the GI Bill. Since my tim in Vietnam, I have been president of mortgage banking institution, pres dent of my own mineral managemen firm and a consultant to other bus ness leaders. I attribute much of m success to the fact that I was drafte and forced to learn a different disc pline of life because of my experienc in Vietnam. I also learned how luck we are to be born in the U.S.
—James C. Hagan
Oklahoma City, Okla.

Not built in a day

SIR: Your article argues that we nee not worry about running out of o ("We're not going to freeze in th dark," *June 27*) and is weakened by it needless references to the Club o Rome report.

The Club of Rome focused primari ly on renewable resources. Can any one rationally argue that uncontrolle tropical deforestation, desertificatio of arid and semi-arid lands, depletio of marine species and global climat change are justified in the name o economic growth?
—J.B. Tschirley
Rome, Italy

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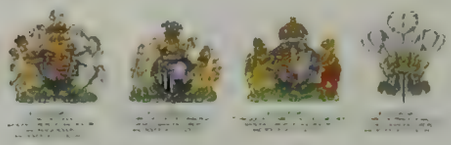

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The Z-248 is also standard with 1MB RAM and is expandable up to 6MB without using an expansion slot. However, four open expansion slots can artfully handle futur growth. Configurations of 5.25," 3.5" floppy or 40, 80 and 160MB hard disks truly expand all your options.

With breakthrough after breakthrough, these new computers are yet further proof that Zenith's AT-compatibles define the State of the Art. See the "AT Collection" now showi at your Zenith Data Systems authorized dealer. For your near location call: 1-800-553-0350.

ZENITH | data systems

THE QUALITY GOES IN BEFORE THE NAME GOES ON.

"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

PUT THOSE WHO CAN MAKE AND/OR SELL BACK AT THE HELM

What must America's businesses do to survive and thrive against the growing competitive clout of the consolidating European Common Market corporateers, the relentlessly able Japanese and the surging export powers of South Korea, Thailand, Singapore and Hong Kong?

Our companies, both great and planning to be, had better right soon start picking CEOs who know how to make things, make services work; who know how to *sell.*

We have had enough—more than enough—of balance-sheet whizzes, of ledger legerdemain; enough of accountants' unimaginative sharp-pencil wanding; enough of sweeping, swooping, preying legal eagles.

With CEOs who know how to *manufacture,* to *motivate,* to *innovate* and to *sell* back at the helm, there are no ceilings on the heights our businesses can scale in the vast marketplaces of the Free World.

SENATOR BENTSEN IS FIRST-RATE

In selecting the Texas Senator, Governor Dukakis has not only made a shrewd political pick but, much more important, has also named a running mate who is very well equipped to be President.

BASICS CHANGED BY AWFUL IRAN PLANE TRAGEDY

Anybody in his right mind—which doesn't include the fanatic Khomeini—knows the U.S. has more reason to regret the tragic downing of the Iranian passenger-filled jet than almost anybody except the victims and their loved ones. Investigations to find out if the possibilities of such disasters in a war zone can be lessened are certainly in order.

But what we and the rest of the world must not lose sight of is *why* our sailors and airmen are in the Persian Gulf. Dozens of them and dozens of seamen of many countries have died as a result of Iran's indiscriminately lethal assaults on ships of any and every flag in those waters.

Unmitigated Iranian terrorism has resulted in many deaths at airports, on airplanes and in the marketplaces of many lands.

It's Iran that's made the seas and skies of the Persian Gulf a war zone.

The loss of 290 lives on that Iran Airbus is a major tragedy, a tragedy for which Khomeini must share a major portion of responsibility.

It's turned out that this terrible air disaster has played a part in Iran's acceptance of U.N. resolution 598. Which could now result in peace sooner rather than later.

WORLD BANK, VITAL TO THIRD WORLD, IS VERY IMPORTANT TO US

Let's hope aware constituents get on those congressmen who are holding out on, or actively fighting against, the U.S.' providing its $13.8 billion share of the World Bank funds that keep the economies of many Third World countries from collapse. World Bank loans finance purchases in the U.S. of equipment for power stations, fertilizer plants and other infrastructure undertakings that supply Third Worlders with some adrenaline in their desperate struggles to build viable economies. One hundred thirty-three of the Bank's 151 member nations have said yes to the needed $74.8 billion increase in its resources.

Among those who haven't are Libya, Rwanda and South Yemen—not the kind of company our nation normally keeps.

The World Bank is well run. Its standards are soundly rigorous. It's not a handout operation. It supplies a healthy hand up for countries really working for their own survival.

A crippled World Bank operation puts vast U.S. dollars-and-cents investments and loans in vastly greater danger. For us to hold out makes no sense whatsoever.

UP CLOSE, HOW DOES DUKAKIS COME ACROSS?

Well.

Very well.

Son Steve (Malcolm Jr.) and I had some time alone with him a few days ago. We'd never met the Democratic presidential candidate before, and we were eager to form a firsthand impression of the man who has considerably better than a 50-50 chance of occupying the White House six months from now.

We met in the middle of yet another hectic Dukakis day on the campaign road.

The Massachusetts Governor's been billed as uncharismatic, methodical. We found him indeed to be calm, cool and collected. But he was also warm, friendly. His answers to our questions were emphatic and sometimes unequivocal. Sometimes refreshingly candid. He's touchy—understandably—on the subject of new taxes.

A sense of humor seeped out and he smiled a bit, as if to acknowledge that some of his answers were campaign shopworn.

In person, the man's more personable than the prevailing pundits give him credit for.

In the debates with the Vice President, the Governor's apt to be formidable.

MSF: Do you agree with most of the pundits these days that the election is now yours to lose?

Dukakis: No. This is a wide open race, it's as soft on both sides as it can possibly be and it's going to be a tough, competitive one.

MSF: On the state of the economy, it was supposed to help Mr. Bush that things were good, but that's not the way it's turning out. Things are, you know, relatively speaking, good. What do you, Governor, feel is wrong now?

Dukakis: Why are people not feeling that good about things? I'd say for three reasons. Any time a government like ours goes up a trillion and a half dollars in debt over eight years and even as we appear to be moving toward a full-employment economy, we're borrowing $150 - $160 billion a year, most of it from foreign lenders. That has to be a cause of great concern. Here we are, a great nation, with as irresponsible a fiscal policy as we've ever had and sky-high interest rates by any expert's standards. That just is the worst way to try to build an economic future which is solid and strong and provides good jobs for people.

Photos by Glen Davis

Warm, friendly, with a touch of humor

The second thing I would say to you is that, although the numbers are better, you know—and in certain places, my state, for example, they're extraordinarily good—a very large percentage of the new jobs that have been created are low-wage, no-benefit jobs. Real family income in this country has not gone up one penny in 20 years, even though the number of families where both husband and wife work has skyrocketed. So what you have is a situation where people are having a tough time making ends meet because their real income is not increasing, while the cost of college tuition is going up, the cost of health care is going up, the cost of housing is going up, the cost of mortgages on their houses is going up and so on.

The third thing, I think, which is creating a lot of uncertainty, is a kind of economic environment in which fast-buck takeover artists are kind of roaming around circling good, healthy companies and creating enormous insecurity. Somebody said to me the other day, "You know, I've worked for this company for 30 years," he said. This company by the way is a subject of constant takeover. He said, "It doesn't make any difference, I've given 30 years of my life to this company and I might be out in the street." Now he feels very strongly about his current employers, who are good people and who are trying to fight off this hostile takeover, but that adds to the sense that loyalty, that doing your job, that working hard at it [is of little value].

Now what do we do about that? I don't want to stop mergers and acquisitions in this country, but you've got a lot of responsible business people who would suggest that there are reasonable rules of the game, beginning with an antitrust policy that you can believe in and the Justice Department is prepared to enforce, and doing something about some of the worst abuses. Currently, there are hearings and a lot of work being done in the House and the Senate on it. Senator Proxmire's been very active in part of this, as you know. But I think we ought to be able to come up with a reasonable set of guidelines, of rules of the road which don't in any way get in the way of a good, lively, enterprising economy in this country. And yet we've got to do something about what are pretty serious abuses.

MSF Jr.: So you are not opposed to hostile takeovers, per se.

Dukakis: No, no. But, you know, for one thing there are serious antitrust implications to a great deal of this; for another, massive amounts of debt, which in many cases, if we ever went into a downturn, would be extremely difficult for these companies to pay off. And Felix Rohatyn has suggested some things. Proxmire's hearings have been good, solid hearings. What we're now getting, Steve, is a situation where, in their own self-defense, states are beginning to act in all kinds of different ways. And we've [Massachusetts] done it, other states have done it, we try to provide some protection for our companies. That's not the best system in the world; there has to be at least a minimum set of standards.

MSF: Governor, what point do you think the federal deficit, 1%-2%-3% of GNP, is a major problem?

Dukakis: I think we ought to be moving toward balance and, if possible, a modest surplus, assuming that we're committed to a full-employment economy. Otherwise, you're going to have serious inflationary pressures which are already moving us toward inflation when you're running a $150 billion debt. So I'm for a steady, gradual reduction of that deficit over the next four or five years and, if we can achieve what I think by any standard would be a full-employment economy, at that point we'll have an amount of surplus.

MSF: Would you do it principally . . . you mentioned farm cuts, you referred to Carter's $3.5-$4 billion in farm subsidies; now it's $26 billion.

Dukakis: There are four things you've got to do if you're serious about balancing budgets. For one thing you've got to make some tough choices about spending, both defense and domestic. And I'm prepared to do that.

Secondly, you've got to get the right amount of growth and you've got to keep it there. That's the easiest and the best way to bring that deficit down. If you have a credible reduction plan, then we can get interest rates down. Every percentage point of interest is costing us $15-$20 million in debt, which is why this continued loose fiscal, tight monetary policy is so crazy.

And finally you've got to find some new revenue. I would begin with $110 billion in taxes that are not being paid in this country. I think that's where you start. And we've had some pretty responsible studies that suggest that anywhere from $35-$50 billion of that is collectible. I don't know of anyone who's seriously proposing a tax plan that will raise you $35-$50 billion.

I don't think any serious candidate for President is even reluctant to raise taxes. This business of Bush being against taxes is ludicrous. We've had four tax increases in six years from this Administration. The Catastrophic Health Insurance bill which Bush supports is on its way to the President; it includes a tax increase. The new trade bill has a billion-dollar fund for retraining to be financed by a very small, across-the-board excise tax on imports. The President's going to sign it. Bush supports it; it's a new tax increase. So I mean these guys aren't serious. . . .

MSF: You said in the last extreme. What would you say now about new taxes, what area would be top of your list? Would it be income, would it be VAT [value added tax]?

Dukakis: I'm not prepared to say at this point. I think that the fairest principle of taxation is the ability to pay, but there are a number of ways to do that. But my own feeling is, it may be wrong, but my own feeling is that the combination of some tough choices on spending, a good solid rate of economic growth, declining interest rates and a very vigorous and effective revenue enforcement at the end. And a voluntary tax compliance program because voluntary compliance is. . . .

MSF: Worked well for you, didn't it?

Dukakis: Sure did, spectacularly. But you can't starve the IRS, you can't cut its agents and resources. You know that we're doing 60% fewer audits today than we were 12 years ago in this country? 60% fewer audits! No wonder we've got [noncompliance].

MSF: One of these areas that [your economics adviser, Professor] Summers has referred to on new taxes was tobacco advertising, on the basis of sin shouldn't be encouraged. But one that he has advocated and that has gotten play in the trade press was that advertising in general should be taxed by being "amortized."

Dukakis: I'm not for that kind of thing. I think that if we were to need new revenues, we ought to do so up front. I just increased cigarette taxes by four cents in my state to pay for universal health insurance. I think that's a very reasonable payoff. The President's going to sign a Catastrophic Health Insurance bill that's going to tax older people more in order to pay for catastrophic health insurance. Well, I can't say I disagree with that, but. . . .

I get most of my economic views as a result of long experience on the battlefield. And I know one thing, you can't live on a credit card indefinitely, which is what this country has been trying to do for eight years.

MSF: Has the Catastrophic Health bill that's now passed been one that you've advocated?

TOUCH FOOTBALL TO THE FORE AGAIN?

Under the Tool's tail . . .

After our session at Chicago's Midway Airport, Governor Dukakis and his entourage passed under the tail of FORBES' *Capitalist Tool* and boarded his charter, labeled *Presidential Airline.* While awaiting the arrival of the two busloads of press and TV accompanying him, the Governor and his top aides deplaned for several minutes and had a ball vigorously tossing a football. The Dukakis pigskin touch was not only not bad, it was pretty good.

Shades of JFK on the White House lawns again?

. . . to the playing field

Dukakis: I supported it. I'm very concerned about 38 million Americans who don't have a dime of health insurance. Not one dime. And most of them are working families. We've done it in my state and it was a major . . . it was really historic. No state in the country has done what we've done, and I hope we can do that nationally.

But as I said, I don't know if you heard me in my press conference, the vast majority of employers in this country insure their employees. They're doing so and they're paying 10%-12%-13% more than they should because some employers are not. If you insure your employees, and I assume you do, you've got a very healthy additional surcharge bearing that agreement—reimbursing hospitals for free care on account of people coming in who don't have insurance. I think that's unfair. I don't think responsible employers ought to be penalized when some employers don't cover their workers. And there may be some exceptions. We exempted companies with five or fewer employees. I think employers in this country have to expect to insure their employees.

(Continued on page 126)

DETROIT SIMPLY SOLVES ITS OVERCROWDED JAILS PROBLEM

Detroit prosecutor John O'Hair, whose job it is to convict law breakers, is accomplishing the incredible miracle of making lesser offenders' punishment productive while keeping space available for those whose crimes require incarceration.

Work crews of nonviolent convicted are working off their sentences by cleaning up the debris of the city's streets and highways. The convict teams clean storm drains, restore eroded and damaged parks, playgrounds and the like.

Many of those assigned to work squads might have escaped penalties altogether because of overcrowded jails. So far in the Detroit program, 60% of those put on these community work projects have carried out their sentences. When those who don't, instead serve their time in jamme jails, the percentage of compliance will climb.

The jobs done by criminal crews are ones that mos cities desperately want to do but don't have the funds le by the time vital functions and other more powerfu claims have been met.

I'm sure city bureaucrats throughout the country ca come up with lots of reasons not to undertake this em nently sensible program. But there surely are enough am bitious prosecutors out there who can see how implement ing such a program would wow their areas' voters.

Can you imagine a more appealing credential for some one who aspires to public office?

GIVE THE ARMY AN A+ ON THIS ONE

In what is properly described as "a major shift in American Army thinking," combat soldiers are now going to stay with the same outfit right through their enlistment. Instead of a soldier's being shifted around frequently as an individual, he will stay with his group and will be able to develop a sense of being part of a prideful unit.

Lieutenant General Robert Elton is right on when he observes, "Individuals who train together provide additional combat capability through increased morale and confidence in their weapons and leaders. We're changing the culture of the Army. I think we have reached a milestone."

In World War II, we were one of the first trainloads to arrive at a just-assembled training center, with only a cadre on hand to create the 84th Railsplitter Infantry Division. In a couple of weeks most all the bodies to fill out the roster were on hand, and a handful of barking noncoms and callow second looies spent night and da for many months putting us, and themselves, int teams—each proud of his Company.

By the time we were shaped up for shipping out to be wee part of Ike's armies battling Hitler across France, w knew each other; we knew who knew his job best. We had firm fix on how and who was to do what when it was n longer fun and games. We knew where we fitted. We were platoon that was part of the best company in the bes battalion of the best damn division—the 84th Railsplitters

In peacetime, that hasn't been the way it has happened A man enters and gets a number and bounces all over th place before his time's up.

From now on, at least in combat units, he'll be aware o being part of something from the time he's trained to th time he's out. The results of that will all be good.

INEXPLICABLE PHRASES

"I for one. . . ." How could it be "I" for two? or three? or twenty-three?

SWEET AND SOUR SUMMER SPREADS

Calvin Klein ad messages have been the most startlingly innovative and successful in the fashion business. But this one ain't no winner. As Jennifer Julier writes: "Why are these people so angry? Did they *all* lose at tennis? Did Daddy catch them playing BMW tag in the meadow? Did someone cheat at croquet? For sportswear enthusiasts these are the most unsporting people I've ever seen."

And for mouthwatering positioning of what really is our superest ice cream, how could the word be spread any better?

CAPTURED IN A WAY WORDS COULD NOT

Walking through the aisles of this year's Art at the Armory show in Manhattan, I couldn't pass up this lithograph by that extraordinary artist Martin Lewis.

The straightforward rows of company houses, the multi-lined telephone poles; the cars, people, clothes; the grit, the naked light bulbs—all combine to capture an evening moment as it was in many industrial towns in the Twenties and Thirties. Imagine being able, with a piece of paper and a black crayon, to capture the feel and face of a whole American era.

Otto Nelson

MORE GOODIES FROM OUR FAVORITE JOKER

¶*Jab's Gab* observes: A good friend of mine, who does odd jobs on the weekend to supplement his income, told me the other day that he only worked for the Lord on Sundays, making needed repairs at churches. "The pay isn't good," he volunteered, "but you can't beat the retirement plan."

¶The story is making the rounds about the little boy who had been on a rampage and was told by his mother that he must be punished. He ran up to his room and hid under the bed.

His father came home and heard what had happened. He reluctantly went upstairs and started crawling under the bed after the youngster. "Hi, Dad," said the boy, "is she after you, too?"

¶Then there's the hillbilly and his son who seldom stir. Daddy commands, "Boy, step outside and see if it's raining."

Without looking up the son answers: "Aw, Pa, why don't you jest call in the dog and see if he's wet."

—*Jab's Gab, Benton County* (Mo.) *Enterprise*

THE "BEST" AND THE "MOST"

are rarely related.

HANG IT UP

when you're tired of it.

BOOKS

● **The Devil and Dr. Barnes**—by Howard Greenfeld (Viking, $19.95). A fortune from the development of a silver compound, Argyrol, used in treating inflammatory infections, enabled Albert Barnes to become the scroogy scourge of the art world. With more than his share of the arrogance that so often bedevils the suddenly rich, he threw himself into the world of art, soon becoming the infuriating personification of the Ugly American. Barnes' only redeeming feature endures—a mansion full of hundreds of first-rate Renoirs, Matisses, Cézannes, Picassos, Soutines and Modiglianis.

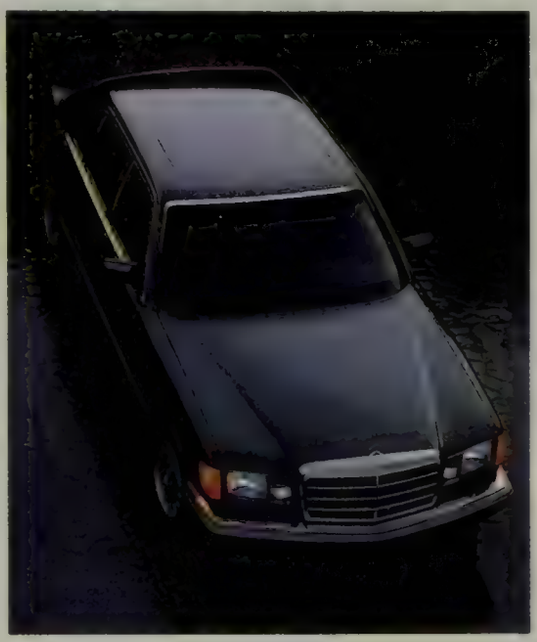
Excerpts: *By the age of 36, when he assumed sole ownership of [his] company, Barnes already displayed those characteristics that would intensify during the rest of his life. He was stubborn, strong-willed, doggedly opinionated, and totally unwilling to compromise. Then, as later, he found it impossible to see two sides to any question. He never doubted he was right, and those who disagreed with him were more than merely wrong—they were his enemies. . . . As a [fox] hunter, the doctor gained a reputation as a "thruster"—one who, in the words of a man who observed him at the club, "thrusts his way in out of turn ahead of other people." For most of the Main Line's well-bred citizens, Barnes was, and would always remain, a thruster. In their eyes, he was unacceptable—a self-made businessman of no breeding, an outsider who, with his gruff, unpolished manners, possessed none of the social graces that would have permitted him to become a part of their society. Barnes reacted angrily. For the rest of his life he played the role they had assigned to him, and he played it well.*

● **The Islanders**—by Jan Lukas (NR Press, $17.95). This extraordinary photographer escaped Iron-curtained Czechoslovakia 20 years ago. Mr. Lukas is number one in the superdiscerning eyes of Bill Buckley, himself the country's number one discerner. Bill writes, "I have placed in *National Review* magazine more than 100 photographs by Jan Lukas. Sometimes (I confess this now, though I shall deny having said it when confronted by my colleagues), I invent a cover theme merely for the sake of reproducing a particular photograph of Jan Lukas' which I simply cannot bear to go one more fortnight without reproducing, such is the hold he has on my eye. And personally? When my son was married in Washington, I asked Jan Lukas to record the event. The pictures Jan Lukas took will outlive even the principals: No heir, however insouciant, would throw away those pictures."

MERCEDES
BENZ

THE MERCEDES-BENZ S-CLASS: FEW CARS HAVE THE SAME PRIORITIES. AND NONE PLACES SO MANY SO HIGH.

A thousand names have briefly flashed across the automotive cosmos. The name of Mercedes-Benz has been shining brightly for slightly more than one hundred and two years.



What has created the timeproof lustre of Mercedes-Benz is the engineering credo behind it: the best automobile is the *complete* automobile—so pursue balance above all. Shun extremes. And place equal priority on every measurable facet of automotive excellence. The sedans of the Mercedes-Benz S-Class exemplify this credo.

Each is a big, spacious, limousine-quiet sedan capable of serving as a mobile boardroom. Each is simultaneously a big, quick, robust sedan capable of shrinking 500 miles of European autoroute to a routine four-hour run.

Each S-Class sedan balances plush riding ease with roadholding tenacity. Breathtaking acceleration with powerful, stable, ABS-augmented braking. And rigid structural solidity with burnished running smoothness.

The priorities of highly innovative technology never override the priority of high reliability. From the anti-corrosion wax injected deep into its body cavities, to as much as 34 pounds of undercoating, to a robotically precise five-step painting process, every S-Class sedan is built to endure. In part by being built to a quality standard that prompted one journal to ask, "How is it that Benzes fit together better than anything else in the world?"

And balancing these basic automotive aims, a basic human aim: the well-being of the occupants. No S-Class engineering priority exceeds the priority of safety. For example, the Supplemental Restraint System with its driver's-side air bag was pioneered in America in the sedans of the Mercedes-Benz S-Class.

You can choose from four S-Class sedans: the 560SEL and 420SEL V-8s, and the 300SEL and new 300SE six-cylinder models. If your key priority is excellence in every way automotive excellence can be measured, call or visit your authorized Mercedes-Benz dealer today. They will be pleased to arrange an S-Class test drive.

Engineered like no other car in the world

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Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Reproduction

Don't let anybody tell you that a colored reproduction by even the best specialist has any real relation to what the painting contains; its analogue is a hearsay version of a honeymoon narrated by an octogenarian.

—art collector Albert Barnes, *The Devil and Dr. Barnes*, by Howard Greenfeld

Out of the Way

In this time when corporations are being encouraged to get back to their roots, to stick to what they do best, we as managers should revitalize that most American of traditions: to honor the individual, to give him or her the tools needed to get the job done—and then to get out of the way.

—William M. McCormick, CEO, Fireman's Fund

U.S.S.R. Food War

The simple truth—that the Soviet Union cannot feed itself—barely does justice to the staggering mess that collectivization, excessive central management and inadequate incentives have made of agriculture and the handling, processing and distribution of food. Among the many hardships of Soviet life, perhaps the most degrading is the constant search for decent food and the hours lost waiting in unruly lines to buy it.

The Soviet press, no longer squeamish about chronicling the country's failures, has reported bits and pieces of the problem: More than 40% of the potato crop rotted last year before reaching consumers, hundreds of boxcars of fresh vegetables spoil before they arrive at distribution centers, cattle are transported for days from farms to slaughterhouses, losing more than 10% of their weight on the way.

—Philip Taubman, *New York Times*

Speak As I Think

The students who received the best marks were those who could think of the most flattering explanations for the greatness of the great figures and the great truths. An English professor had marked one of my papers with an F because I had proposed an unauthorized view of a 17th-century divine. In the margin of the paper the professor had written: "I don't care what you think, I'm only interested in knowing that you know what I think." The message pretty much defined the thesis of a Yale education at the time.

—Lewis Lapham, *Money and Class in America*

Mustache Fakery

The ridiculous fashion of wearing mustachios, which quite lately seemed to be confined to a few boys and dandies, is on the increase in this city, and one now, in the course of walk on Broadway of a pleasant afte noon, will meet quite a number young men who, but for the hai argument in the negative upon the upper lips, might be mistaken f rather sensible looking persons. W cannot account for this growing fas ion, unless the dandies, tired of bei called smooth-cheeked and effem nate, are determined, in complianc with Hamlet's advice, to "assume virtue if they have it not."

—*New York Evening Pos* Feb. 10, 1831, submitted b Mary W. Covington, in *Antiqu*

I can't stand this proliferation of paperwork. It's useless to fight the forms. You've got to kill the people producing them.

—Vladimir P. Kabaidze, plant manage addressing the Communist Part conference, *New York Time*

Speech Saves Life

John F. Schrank shot Theodore Roo sevelt as TR was leaving a hotel i Milwaukee on his way to make speech during his Bull Moose cam paign in 1912. Though fired at point blank range, the bullet passed throug a folded copy of Roosevelt's hour-lon speech and his glasses case before lodg ing just short of his lung. (If he ha been less prolix, he might well hav been killed.) Roosevelt insisted on go ing ahead with the speech before bein taken to a hospital. He also insiste that Schrank was not insane, since h had made the attempted assassinatio in a state that had no death penalty. " may gravely question," TR later wrot an English friend, "if he has a mor unsound brain than Senator La Fol lette or Eugene Debs."

—*American Heritag*

Never in Front

Decorator Tony Ingrao took heiress Pamela Huntington Murdock to dinner at Giorgio's in Port Chester. The dinner trip out-of-town was prompted by Ingrao's desire to show Murdock a castle he's been decorating in nearby Greenwich, and the fact that he was driving a pal's Rolls-Royce.

When Murdock, always a polite date, sang the car's praises, Ingrao asked, "Haven't you ever been in a Rolls before?"

"Yes, but never in the front seat."

—William Norwich, *Daily News*

"I certainly am worried about the whales. It's just that I'm not worried about them right this minute."

Drawing by W. B. Park, ©1988 The New Yorker Magazine, Inc.

Georgia-Pacific is making big waves in the world pulp market.

Very big waves if you consider that last year alone Georgia-Pacific exported over half a million tons of market pulp to foreign customers. Enough to make us the largest exporter in America. And the future is looking even brighter, as we continue to expand production, add value, and increase productivity at every opportunity.

But pulp is only a part of Georgia-Pacific's flourishing paper business. A business that is generating over one-third of our total annual sales, and over one-half of our operating profits. And this year should see even greater advances as we invest in excess of $1 billion in pulp and paper projects.

We're making waves alright. But just wait until our ship really comes in.

Georgia-Pacific

Savvy.™ From the ground up.

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A reputation for being a source of strength in troubled waters isn't built overnight.

In fact, the conservative, risk-averse financial principles that built Republic National Bank have their origins in the practices of the Safra banking family, a tradition over a century old.

Thus our sturdy capital base and strong asset quality contribute to the security our clients are seeking. Additional reassurance is provided by our capital-to-deposit ratio, which is one of the best among all U.S. banks.

Which helps explain why over a five-year period, according to *American Banker*, Republic has had the highest nonmerger-related growth in deposits and assets among the nation's top 25 banks.

A comforting thought for those whose destination is a secure financial harbor.

REPUBLIC NATIONAL BANK OF NEW YORK

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BEVERLY HILLS · CAYMAN ISLANDS · LOS ANGELES · MEXICO CITY · MIAMI · MONTREAL · NASSAU
NEW YORK · BUENOS AIRES · CARACAS · MONTEVIDEO · PUNTA DEL ESTE · RIO DE JANEIRO · SANTIAGO · SAO PAULO · BEIRUT
GENEVA · GIBRALTAR · GUERNSEY · LONDON · LUGANO · LUXEMBOURG · MILAN · MONTE CARLO · PARIS · HONG KONG · SINGAPORE · TOKYO

Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

WHAT DO WE DO WITH ALL THIS MONEY?

The word is out: Social Security is becoming a money machine. In four years, the system's assets will total over $200 billion. In a couple of decades or so, the trust funds could conceivably own the entire national debt.

Only a few years ago, Social Security was on the brink of bankruptcy; until a few months ago, it was routinely cited by economists and other "serious" people as a primary cause for our budget deficits.

What brought about the reversal? Is it for real? What, if anything, should be done?

Kevin Rose/Image Bank

Social Security's assets will soon exceed the nation's money supply

That more money will be coming into the system than going out of it for many years to come is now beyond dispute. The only questions are how big the surpluses will get and when the system will go into deficit again. (Forecasts range from 2015 to 2036.)

They Overdid It

Two factors brought on this remarkable reversal. First, the 1983 legislation to save the system slightly reduced future benefits and substantially boosted Social Security taxes. It is now clear that the increases were excessive, that they were based on overly pessimistic predictions concerning the economy.

Second, the system is benefiting from demographics: The post-World War II baby boomers are working and earning more as they get older. Expanding this bulge of workers, of course, is the unprecedented number of women now in the labor force. Never has so high a percentage of working-age people been employed. The number of retirees will be falling in the 1990s because of the low birth rates of the 1930s. The demographic coin, alas, will flip early in the next century when the boomers start to draw benefits and the number of people working will shrink because of the falling birth rates since the 1960s.

What will be the impact of this growing mountain of money over the next three decades?

Money of that magnitude won't be left alone, that's for sure. The Claude Peppers will advocate a binge of increased benefits. Congress might shuck off current spending restraints for the rest of the budget. (Social Security surpluses are invested in Treasury securities, in effect financing the rest of the budget's shortfall.)

Here are some constructive suggestions:

- The Social Security tax boost of this year and the one scheduled to go into effect in 1990 should be repealed. Payroll levies are job destroyers. Social Security expert Peter Ferrara estimates that at least a half million jobs will be created if these increases are rescinded.
- The tax exemption for kids under the age of 6 should be increased to as high as $10,000, or a tax credit should be given in the range of $1,500 to $2,000. (Another possibility: reduce the payroll tax by one percent for each child a family has.) This would lessen tax burdens for young couples wishing to have children. It would help them, as well as families headed by single parents, to pay for day-care for their youngsters. When this country adopted the broad-based income tax 45 years ago, the exemption for dependents was the equivalent in today's dollars of almost $7,000. The real threat to our economy's future ability to expand and innovate is the birth dearth. In a few years, the housing industry will feel the impact of the smaller number of young people coming into the work force. Other parts of the economy will be severely impacted as well.

Better Returns Elsewhere

- The temporary surpluses can also be used to partially privatize the system so that a portion of the money is invested more productively than in nonmarketable Treasury bonds. Under a scheme proposed by Morgan Bank economists and others, the typical taxpayer might divert $500 to $1,000 per year to some sort of IRA.

Any of these approaches would be far more constructive than shoveling the money out in increased benefits, jacking up general government spending or targeting government loans to "deserving" private businesses.

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BRITISH AIRWAYS

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Edited by Howard Banks

THE LOW-INCOME HOUSING BIND

More is involved than just cutbacks in federal payments

A SINGLE PARENT IN NEW YORK WITH THREE KIDS and earning $17,500 a year can't find an affordable two-bedroom apartment, reports the *New York Times*. With child support and $200 a month in aid from a charity, she could pay $750 a month rent.

Instead, the family is housed in a motel, at a typical cost of $1,800 a month, half paid by the federal government, the rest split between city and state.

Yes, it's an extreme example, but such stories are on the increase. And a great deal more is involved than just cutbacks in federal payments to help low-income housing.

The crucial change is that since the mid-1970s housing costs, for rental as well as purchase, have risen faster than incomes. Housing has become less affordable, especially at the bottom of the market.

Fewer first-time buyers can afford to buy a home

HOME OWNERSHIP HAS DECLINED FOR THE FIRST TIME in the postwar period, dropping 2.4% since 1980, to 64% of households. That's the national average. Declines were worse in the Midwest and West.

But the largest change affects first-time buyers, aged 25 to 29, among whom there was a 17% decline in home ownership since 1980, to 36% of households.

Social changes (marrying and buying houses later) have had less effect than rising costs. The aftertax cash cost (with property taxes, utilities, etc.) peaked at 45% or so of the group's average income in 1981-82, up from a historic base of 20% to 25%. It now runs around 32%.

As fewer people buy their first homes, so fewer rental units come onto the market. Inadequate supply drives up prices, and gross rental costs (including property taxes, insurance, fuel, etc.) now average 30% of incomes nationally and up to 50% of low incomes.

Housing is the one area where trickle-down has failed

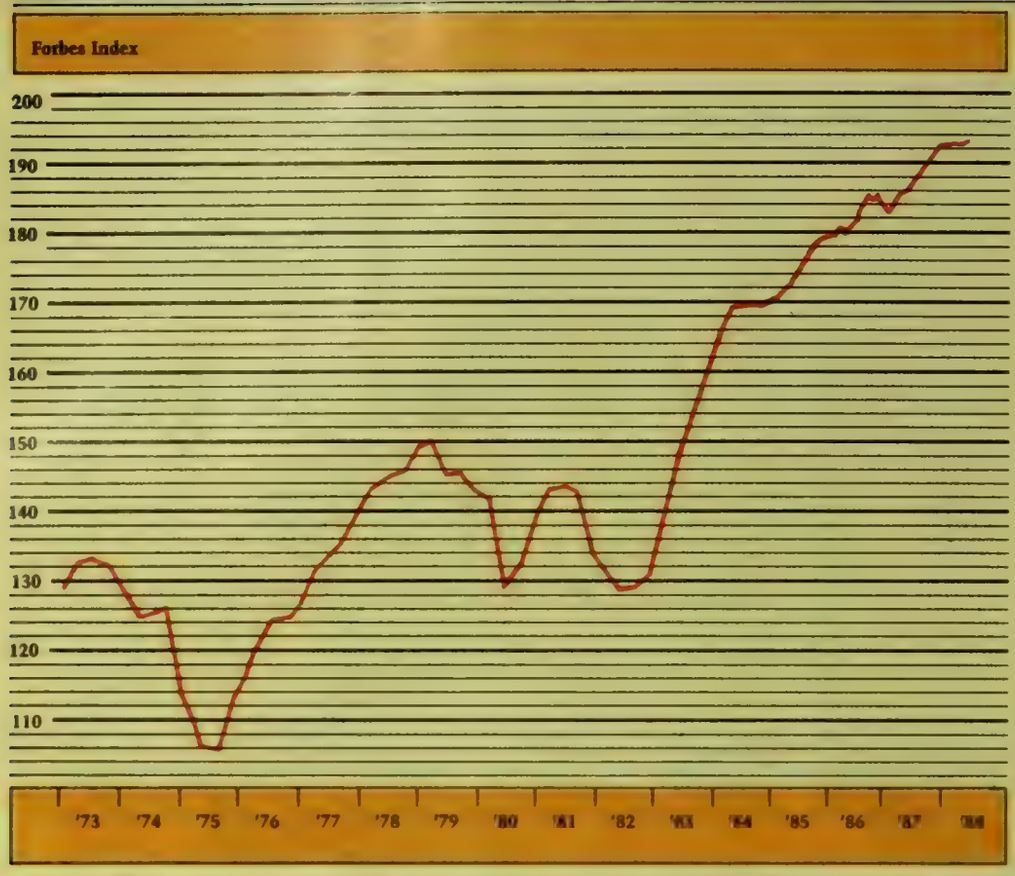
AVAILABILITY OF RENTAL PROPERTY HAS BEEN FURTHER HIT. One factor: Tax reform ended accelerated depreciation, sharply cutting building of multiple units. Another factor: Some of the 2.9 million rental units privately provided under the federally subsidized low-income public housing scheme are being converted to more valuable condos or co-ops, and more will follow when subsidies end.

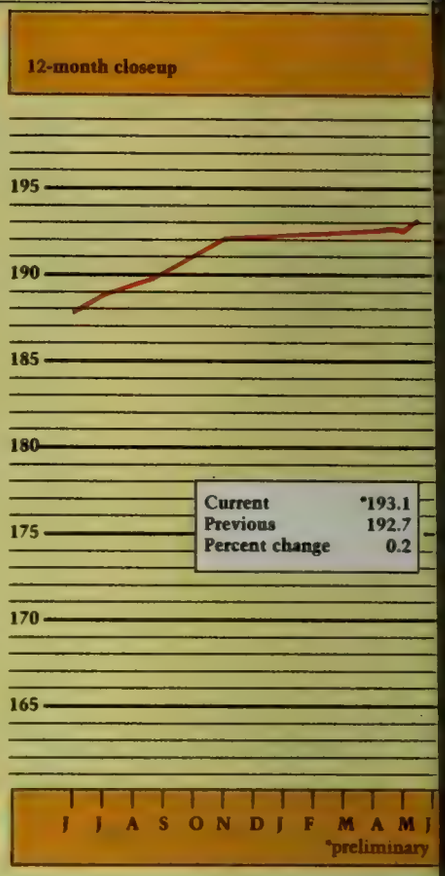
Actual spending by the Department of Housing & Urban Development under Reagan has stayed around $13 billion to $14 billion, but, because of inflation, the number of new subsidized units added each year has shrunk. Vouchers, worth $3,000 per household a year, go to just 120,000 households nationally—less than $400 million.

By contrast, the mortgage interest and property tax deductions total $43 billion a year in subsidies to home owners. This includes deductions for "second homes" like recreational vehicles and yachts.

Clearly, low-income housing is one area where nearly six years of economic growth has failed to trickle down at all.

The Forbes Index





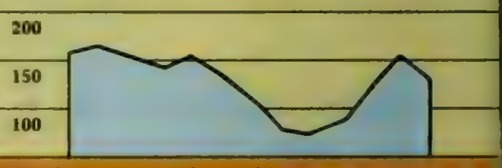
Do we really want a strong dollar? American manufacturers have been reaping the benefits of a relatively strong domestic economy and an improving export market. But things could get tougher in the months ahead if the dollar continues to strengthen. For the moment the economy seems healthy. New claims for unemployment benefits declined in June to their lowest monthly total since last November. The 5.3% unemployment rate recorded i June was the best figure in 14 years, and it may be hard t beat. That's because of rising interest rates and pressu from organized labor for a minimum wage increase. Indu trial production rose 0.4% in June and stands 2% above i level at the beginning of the year. Consumer installme credit hit a record $636 billion in May.

The Forbes Index Components

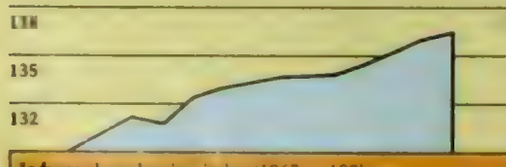
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right

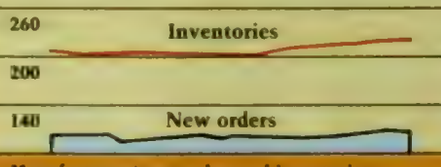
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)



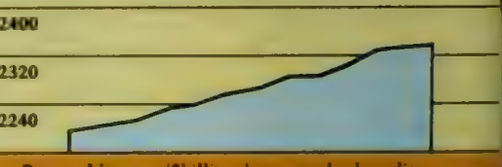
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



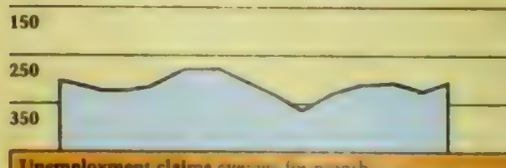
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)



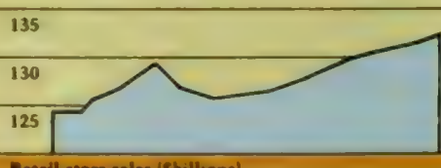
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



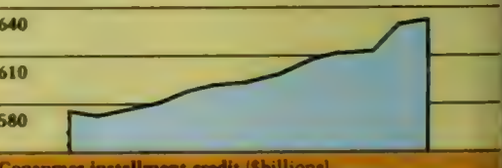
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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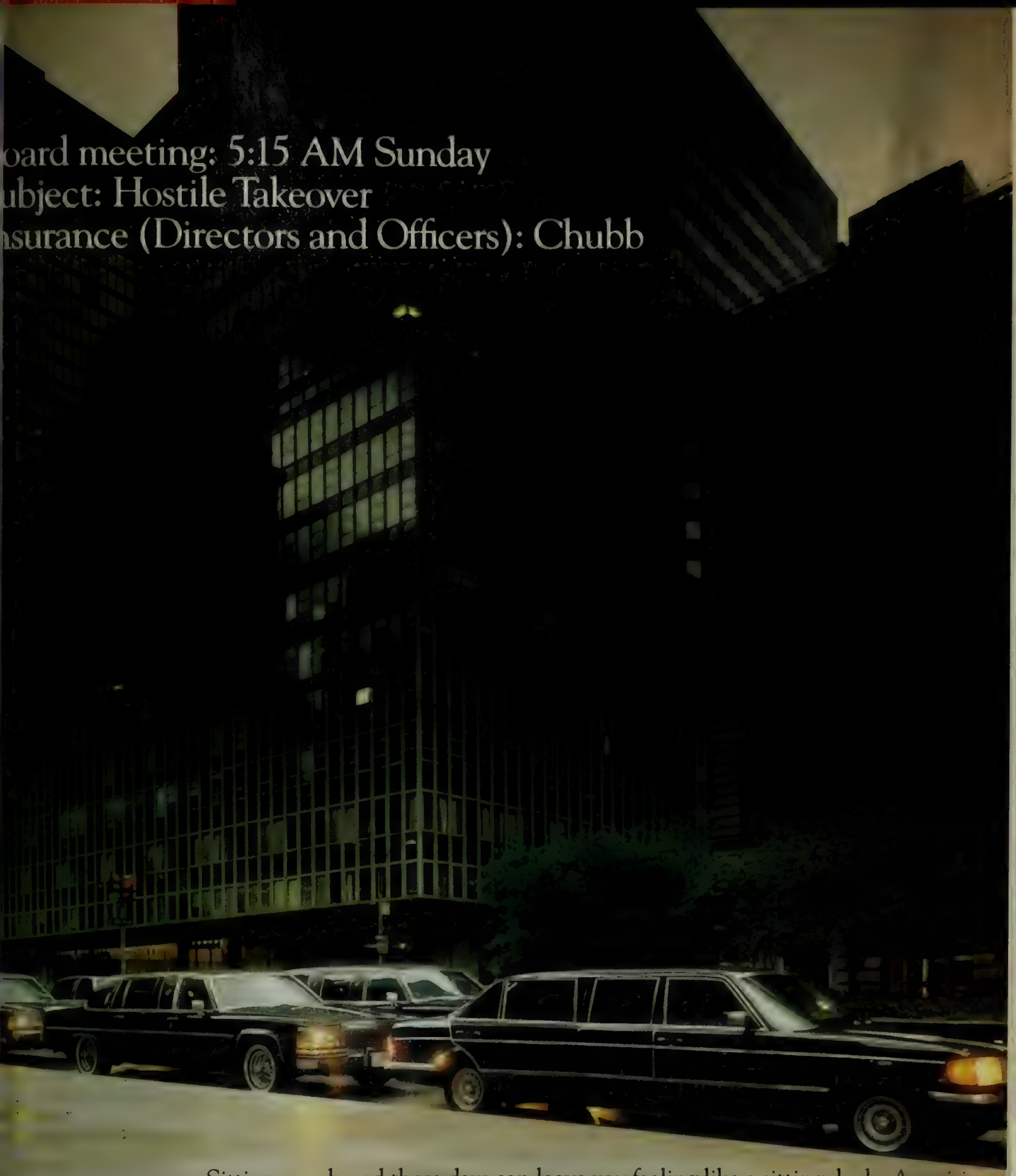

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Forbes

Are the addicts getting wary of crack and cocaine? Are the prices falling? Never mind. The drug lords have a promising—for them—new product: smokable heroin.

Unwelcome side effects from peace in Afghanistan

By Allan Dodds Frank

THE WINDING DOWN of the war in Afghanistan may be good news for world peace, but it threatens to unleash yet another drug-use epidemic on the U.S. Heroin production is surging in central Asia's Golden Crescent, which stretches from Turkey across Iran and Afghanistan into Pakistan and India. With much of Afghanistan devastated, people there will be looking for a quick, profitable cash crop. Opium poppies for heroin fill the bill.

For the U.S. and Colombian drug lords it promises to solve a problem. Cocaine and its popular derivative, crack, are showing all the signs of mature products. Prices are dropping: At less than $20,000 a kilo wholesale in Los Angeles, cocaine costs about a quarter what it cost in 1982. Yet the market growth for cocaine powder used for snorting has tapered off since 1985. Only the widespread marketing that year of smokable cocaine—rock or crack—has kept overall consumption of cocaine rising. Marijuana consumption continues to fall; its use among the bellwether group of high school seniors has hit a ten-year low, according to a recent survey.

But there is little to rejoice about. Drug use is not falling off. The drug lords have a new product: smokable heroin. And a renewed source of supply: Afghanistan. Within the last year, some hip New York and California drug users have begun smoking heroin, often just sprinkling it on cigarettes. These are those bicoastal trendsetters who got the country started on everything from smokable cocaine to wine coolers. If heroin smoking spreads, worries Drug Enforcement Administrator John Lawn, it will have "major medical consequences for the U.S."

Daniel Sheehan—Matrix

Mujahedin in an Afghan poppy field

Narcotics control is not likely to be a top priority.

Some evidence suggests heroin use is already increasing. Nationwide, hospital emergencies involving heroin have increased more than 30% in the last three years, as the purity of street-level heroin has increased. But fear of contracting AIDS from needles has prompted some users to switch to smoking. With more potent heroin increasingly plentiful, users find it easier to avoid overdosing by smoking rather than shooting up an entire fix. U.S. officials estimate the heroin addict population at around 500,000, but recent seizures of huge amounts of heroin—in one case enough to supply all the known junkies in New York for a year—have convinced DEA officials that their estimates of overall heroin con-

sumption are shockingly low. That's because a lot of heroin is used in conjunction with other drugs.

Look at the situation as a marketing person would, and you find that all the market conditions are ripe for smokable heroin: Raw material supply is increasing, manufacturing capacity is in place, a wholesale and retail distribution system exists that can easily be adapted for smokable heroin.

Heroin-by-injection was the scourge of American inner cities in the 1960s. But extensive publicity about the dangers of needles gave the drug a ghetto stigma. Then, the end of the war in Vietnam and the successful poppy eradication program in Turkey made heroin far more scarce by the middle of the 1970s. Supplies from Mexico were curtailed, and in 1979 the Soviets invaded Afghanistan, disrupting that country's opium production and diverting some of it to Russian soldiers.

Thus heroin became relatively expensive and cocaine use soared; while heroin never died out, it became too expensive to attract many new users. American addicts scorned smoking the costly drug as wasteful and inefficient. By injecting heroin, a junkie could get a longer-lasting high.

Yet smoking heroin or its unrefined base product—opium—is a centuries-old practice throughout Asia. Pakistan and India, for example, acknowledge 600,000 heroin addicts each, most of whom use the drug in its smokable form.

Smokable heroin is even simpler to use than crack. Both white and brown heroin can be smoked without further treatment. By contrast, cocaine powder, an acidic substance, must be cooked or microwaved with baking soda and water in order to convert it into crack, a smokable substance flammable at low temperature. From a technological and convenience standpoint, then, smokable heroin has the potential to win a whole new class of American customers for the opium growers in Afghanistan and Southeast Asia.

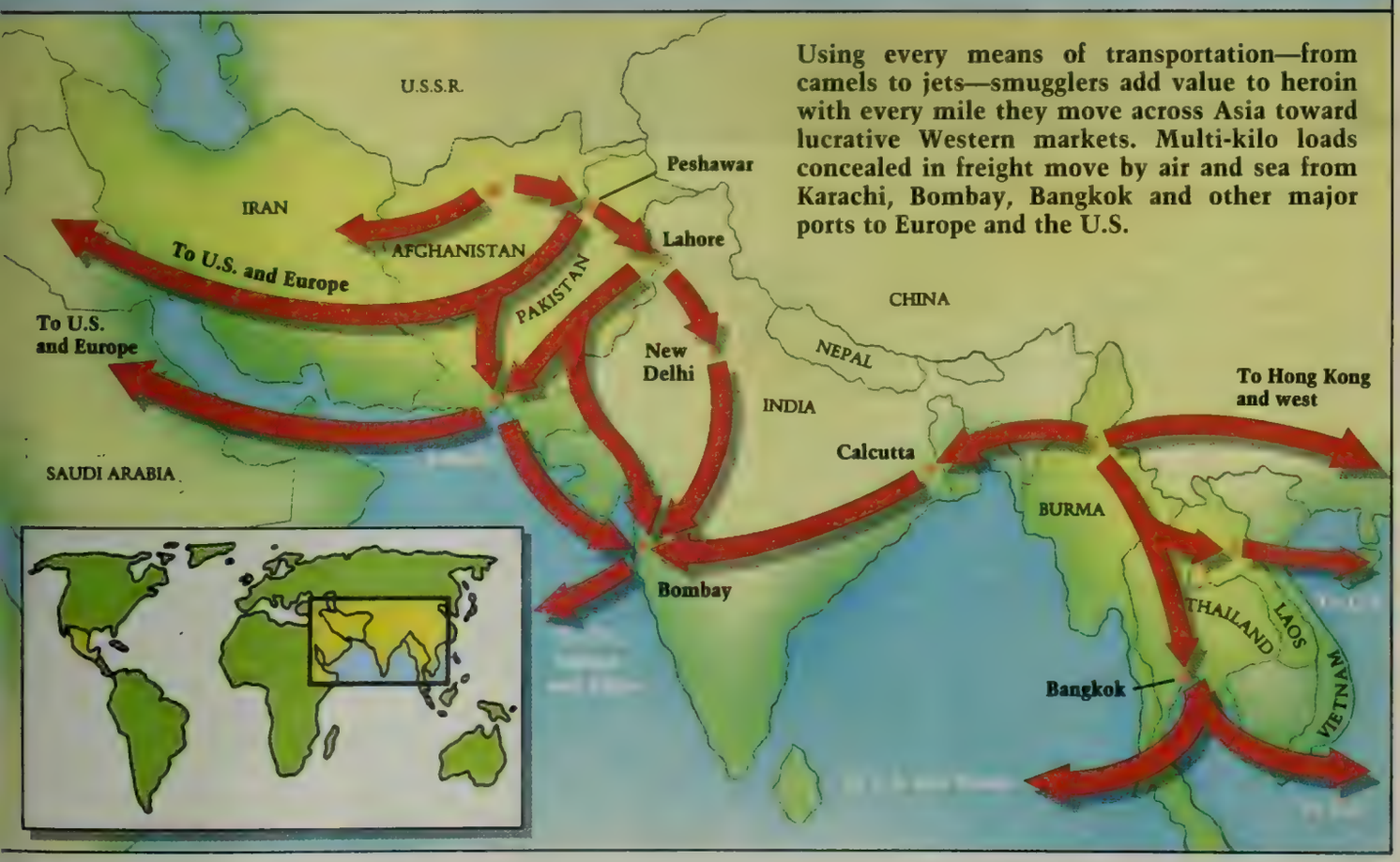
Currently, U.S. authorities cannot with confidence break down the overall supply by nation of origin. At the moment white heroin from the Golden Triangle—Thailand, Burma and Laos—and brown heroin from Mexico dominate the market. Nationally, Golden Crescent heroin is believed to account for less than 30% of imports. But the swelling supply in Afghanistan promises to change all that.

The Drug Enforcement Administration estimates nearly 200 heroin-producing labs already operate with impunity along the Afghan borders with Pakistan and Iran. In 1988 those labs will process about 800 metric tons of opium, which will yield about 80 metric tons of up-to-80%-pure heroin.

With the next crop of opium poppies due to be planted in November and harvested in April, DEA officials fear that in 1989 Afghanistan's opium production could yield as much as 150 tons of heroin. The DEA now estimates that 40% to 50% of the drugs originating in Afghanistan will reach the European, Middle Eastern and American markets, and predicts that within two years Afghanistan could supplant Burma as the largest producer of illegal heroin. As the DEA's John Lawn puts it: "We certainly don't anticipate that a primary concern of a new Afghan government is going to be narcotics control."

Nor of the Pakistan government on Afghanistan's southern border. Northwestern Pakistan is a lawless place where AK-47 automatic assault rifles can be rented by the day, and where bands of armed men roam the 280-mile-long stretch of the Grand Trunk Road linking Peshawar and Lahore, often shooting out the tires of passing vehicles and robbing the occupants. To the west, in Iran, caravans of up to 100 drug smugglers driving Mercedes jeeps have defied the Ayatollah's antidrug edicts by shooting their way across the country to the Turkish border, with multi-

Farmers and markets



Using every means of transportation—from camels to jets—smugglers add value to heroin with every mile they move across Asia toward lucrative Western markets. Multi-kilo loads concealed in freight move by air and sea from Karachi, Bombay, Bangkok and other major ports to Europe and the U.S.

hundred-kilo heroin loads originating in Afghanistan.

Without Russian soldiers to use their fancy new weapons on, the Muslim freedom fighters will probably start using the guns on one another as they struggle for power. Many observers expect partition of Afghanistan. The model may well be Lebanon, where Syrian-backed radical groups have in three years reportedly quadrupled cultivation of heroin in the Bekaa Valley.

"Money is power," notes one American official in the region, "and all the factions know that the quickest way to make money is through drugs." While Iran's Imam Khomeini has decreed that drug dealers are to be hanged, prominent Afghan mullahs are said to have declared that cultivating poppy fields is "not un-Islamic."

The margins in heroin leave ample room to cut drastically the price of the drug landed in the U.S. once supplies swell. One kilo of heroin purchased at an Afghan lab costs perhaps $800. By the time it has crossed through the Khyber Pass into Peshawar, Pakistan, the price can be up to $2,000. In Lahore, just 17 miles from the Pakistan-Indian border, a kilo fetches $5,000. And in the ports of Karachi and Bombay, $8,000 to $10,000, depending on purity. So lucrative is the heroin trade that one drug baron who arranges transportation in the Northwest Frontier Province of Pakistan has erected a fort 1 kilometer long on the Khyber Pass Road.

Once in the ports of Karachi and Bombay, the heroin is easily camouflaged in shipments of textiles and furniture transported by air and sea to the Middle East, Africa, Europe and North America. Says India's deputy director general of the narcotics control bureau, Dalbir Singh, "If you put 10 kilos of heroin in a 20-ton container, nobody is going to be any the wiser."

In a European port, an 80%-pure kilo of heroin is worth $50,000 to $80,000 wholesale. Coming into North America, that same kilo will fetch $100,000 to $200,000 wholesale. By the time that kilo has been diluted to one-tenth-of-a-gram doses of 10% purity, it is worth at least $800,000. A kilo broken down for retail in New York would cost the same as 1 ton purchased in a lab inside Afghanistan. Try that on for size: Heroin that costs $1 at the source sells for $1,000 on Manhattan streets. Those prices could easily be cut 50% and still leave plenty of profit for the whole evil chain of dope pushers.

Neil Tull—Sygma

Police making a crack bust in New York

The distribution system can easily handle a new product.

The Colombian cocaine lords understand their existing product line is threatened both by government enforcement and by the growing public awareness of cocaine's dangers. Several years ago they tried to cultivate opium poppies and make heroin in South America, but agricultural conditions were inhospitable and crop yield low. Not to be discouraged, the Colombians—as well as traditional organized crime families in Italy—have been forging heroin supply connections with Indians and Pakistanis who handle Afghan drugs. The heroin will enable the drug lords to keep their distribution pipelines filled with salable product. "It would be naive to think the Colombians won't expand [into Asia]," DEA's Lawn warns. "They are entrepreneurs, too."

What can U.S. officials do to stem the heroin wave headed this way? They are trying bravely, but each success simply leads to a setback somewhere else. The government of Turkey cooperated with Washington in killing many thousands of acres of poppy fields. Pressure from Thailand's military has disrupted Burmese heroin routes along the Thai border.

But Pakistan and Afghanistan are harder cases. When Pakistani officials manage to destroy opium fields, growers simply move across the border. The biggest trucking operation between Peshawar, gateway to the Afghan border, and the Karachi port is the National Logistic Cell, a government-controlled operation whose trucks are rarely inspected by Pakistani police officials, let alone foreign authorities. Many observers suspect that associates of Pakistan's president, General Zia el-Haq, are involved in financing and protecting drug deals through the National Logistic Cell. But Pakistan, which received more than $640 million in overt American aid last year, is an important ally, and drug enforcement officials find little enthusiasm elsewhere in the U.S. government for pursuing leads.

In India, meanwhile, the drug-fighting bureaucracy has expanded, but Prime Minister Rajiv Gandhi has forbidden U.S. and other foreign drug agents to work independently on cases inside his country. He has thus inadvertently made his government an accomplice of the drug smugglers, since India's own meager resources are inadequate to deal with the drug eradication problem. This greatly benefits the 150,000 Indian farmers who legally grow opium on small plots to produce heroin for medicinal purposes. American officals figure that as much as 50% of this "legal" crop now leaks into the illegal market, for export and for domestic consumption by India's estimated 600,000 heroin addicts.

"It gives a lot of prestige in India to be a cultivator of opium," reports Debesh Chakabarty, narcotics commissioner of India. "To be a poppy grower means your son or daughter will get a good match."

Put that on the grave of a deceased heroin addict: He or she died that someone's daughter might make a good marriage match. That's the way it is, and that's why eradicating the drug scourge may turn out to be the toughest problem our society ever faced. ■

Fire at Shell's Norco, La. ethylene plant
Making an ethylene-tight market even tighter.

McCrosker Times-Picayune SIPA

Chemical industry assets are changing hands at much higher valuations than what the stock market says the companies are worth. What gives?

Good chemistry

By Howard Rudnitsky

IN JUNE General Electric shelled out over $2 billion for Borg-Warner's engineered plastics subsidiary. That priced the company at about 12 times its free cash flow—its cash flow after capital expenditures. Around the same time, some Koppers Co. executives and Gordon Cain, now of Sterling Group, took Koppers' chemicals business private for $660 million, around 10 times the assets' free cash flow.

These are hefty prices to pay in a highly cyclical industry, but they seem to represent a trend. Earlier this year Occidental Petroleum's Armand Hammer paid $1.25 billion for Gordon Cain's $1.2 billion (estimated revenues) Cain Chemical; Oxy also assumed $830 million of Cain's debt. Gordon Cain, 76, started the company only last year and pocketed around a $100 million profit on a $2 million investment.

Why are chemical producers changing hands, often at multiples well above those of publicly traded chemical stocks? Basically because managements believe commodity chemicals are an attractive business, and the cyclical industry seems set for a longer up cycle than expected.

"Things are tight right now in a number of chemical products," reports Dow Chemical Chief Executive Officer Frank Popoff. "The industry clearly needs more capacity, because demand is growing as fast as supply." Popoff's company could earn a record $2.1 billion—$12 a share. In 1984 Dow earned just $524 million—$2.70 a share.

As the chart *(see p. 38)* shows, commodity chemicals' costs have fallen, while prices have recovered smartly from the early 1980s. Back then a combination of inflated energy prices, substantial new capacity and a deep recession all combined to cut chemical company earnings by as much as 80% from their peak earning levels.

Now the earnings have recovered smartly. This is usually the time for huge overbuilding, new price-cutting and another cyclical downturn. Indeed, there has been a spate of capacity addition announcements through 1991: capacity growth of 20% for

Basic chemistry

Earnings for commodity chemicals are near record levels. Stock prices are up, but many chemical stocks still trade at sizable discounts to earnings and cash flow, relative to the rest of the market.

Company	Revenue 1987 ($mil)	Market value ($mil)	EPS 1987	Est EPS 1988[1]	Est P/E 1988	Est cash flow per share[1]	Est price/ cash flow 1988	Price as of 7/15/88	52-week range high–low	Recent yield
MAJORS										
Dow Chemical	$13,377	$17,241	$6.47[2]	$12.00	7.5	$17.25	5.2	90⅛	110–60	3.1%
Du Pont	30,468	21,313	7.39	9.25	9.6	20.60	4.3	89¼	131–75	4.2
Imperial Chemical	18,242	12,243	8.50	9.75	7.5	14.94	4.9	72⅞	108–67	5.5
Monsanto	7,639	6,443	5.63	8.30	10.8	17.72	5.1	90⅛	100–57	3.3
Union Carbide	6,914	3,263	2.16[2]	4.50	5.4	8.48	2.9	24⅜	33–16	3.2[3]
OTHERS										
Aristech	919	877	2.71	5.60	6.1	6.69	5.1	34	39–17	2.3
Georgia Gulf	707	975	6.30	12.00	6.2	13.22	5.6	73⅞	76–28	1.6
BF Goodrich	2,168	1,320	3.17[2]	6.10	8.7	10.94	4.8	53	65–28	3.2
Himont	1,165	2,738	3.77	5.00	8.4	5.94	7.1	42	54–23	2.8
Quantum	2,567	2,639	4.38[2]	13.50	7.5	21.35	4.8	101½	105–49	2.1
Vista Chemical	609	609	2.60[2]	7.50	7.9	10.56	5.6	59¼	61–20	0.8

[1]Source: Mabon, Nugent. [2]Excludes extraordinary gain or loss. [3]Based on quarterly dividend of 20 cents, effective 9/1/88.

polyethylene, 19% for polyvinyl chloride and 9% for polystyrene. Recently Phillips Petroleum announced it will spend $350 million for a 1.5-billion-pound ethylene expansion, to come on stream sometime in 1990.

But don't take all these announcements literally. Says Gordon Cain: "Don't believe everything you hear." Cain believes that some of the announcements are intended to discourage competitors from expanding, rather than to represent firm plans.

Dow's Popoff agrees. "A number of those plant expansion announcements are preemptive strategies. The companies figure if they announce first, maybe the other guy'll think twice [about adding capacity]."

Popoff is backing his optimism about continued strong prices with plans to invest several billion dollars to expand Dow's polyethylene and ethylene capacity by nearly 1 billion pounds each a year over the next five years. Is he bluffing? Unlikely. The capacity Popoff is prepared to add is supported by Dow's extraordinarily high operating rates in those two chemicals.

Morgan Stanley's chemical analyst Paul Leming suggests that the current period is more like the early 1970s than the early 1980s. "In the Seventies," he recalls, "the industry ran at very tight operating rates as a result of prolonged underinvestment in new capacity. It took three years for capacity additions to reduce high operating rates. The same conditions exist today. I feel it's unlikely the industry will move out of the current tight operating environment before 1991."

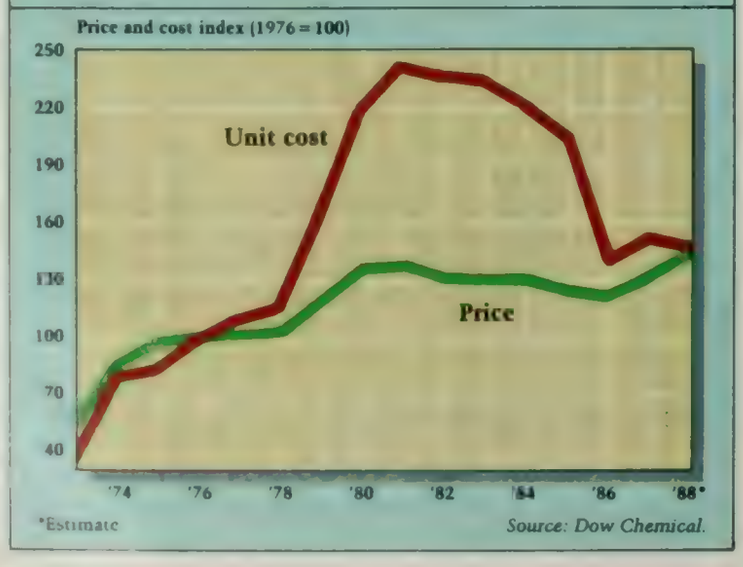
Leming adds: "I'm convinced that profits will hold up better in the next downturn than most investors believe, and that the stocks should be less vulnerable [to a recession] than the market as a whole."

Another analyst, Robert Reitzes of Mabon, Nugent, believes that most commodity chemicals should run at 90% and higher capacity levels through 1990—assuming, of course, no major recession and no major price increases in oil feedstocks. That would be high enough, says Reitzes, "to generate attractive pretax profit margins of 25% to 40%." Back in the bad old early 1980s, margins on many basic chemicals had shrunk to 10%.

There are pessimists as well as optimists, however. Among the former is George Krug of Eberstadt Fleming. Says Krug: "Prices of commodity chemicals have climbed so high that customers will soon begin to substitute other commodities. Then added capacity will put further pressure on prices, which will in turn erode earnings." Enough people agree with Krug that many chemical company shares today sell at large discounts from the price/earnings ratio of the Standard & Poor's 400-stock average. Among the cheapest in terms of earnings are Dow Chemical, Imperial Chemical, Union Carbide, Georgia Gulf, Aristech and Quantum. The stock market, in short, is discounting a downturn in profits, and an upturn in capacity, that may not come for some time. ■

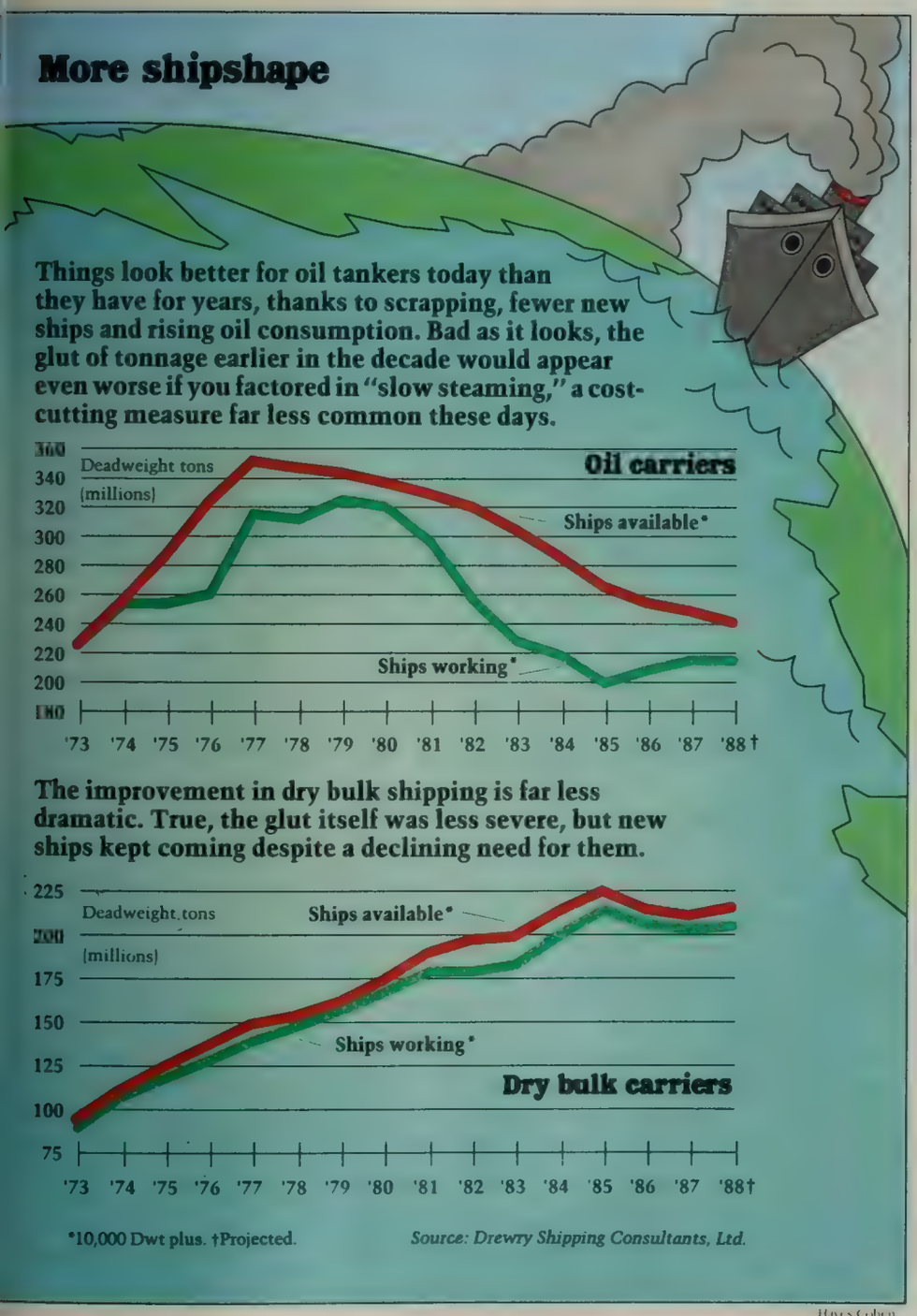
Double leverage

Escalating energy prices and massive overcapacity eroded the chemical industry's profit margins through much of the past decade, as shown by these figures compiled by Dow Chemical. Now, with energy costs lower and with little excess capacity, prices and margins are rising.



The shipping business, depressed for years, is coming back. But look: The old names are gone and new ones are in their place.

Profits ahoy!



Hayes Cohen

By Ralph King Jr.

THREE YEARS after it touched bottom, signs are sprouting that the longest, deepest and bloodiest ocean shipping depression of this century (FORBES, *July 29, 1985*) is over. For some owners, losses continue, and banks that lent willy-nilly to the industry in its glory days of the early 1970s have written off loans that by some estimates reach $20 billion.

Yet the idle ships, which once clogged the fjords of Norway and the harbors of Greece, have dwindled to near zero as cash-strapped owners have long since sold their vessels for scrap. Meanwhile, world demand for such vital commodities as oil and ore is climbing again, helping push up freight rates by 45% in the last 18 months, according to Maritime Research, Inc., an industry study group.

Rates are still too low to justify much new building. But the rising value of used ships, which have in many cases appreciated by 300% in the last three years, is beginning to close the gap. "All you need to understand shipping is a course in Economics 101," says Loews Executive Vice President James Tisch. "It's been depressed so long that Wall Street doesn't understand what can happen in a boom." Tisch should know. His company has made a small killing on paper by buying used tankers when almost nobody wanted them.

The severity of the shipping depression was largely caused by overbuilding by the Japanese and all-too-easy credit from banks. Now, bankers and shipbuilders alike seem to have learned that ancient lesson: You can have too much of a good thing.

As the business comes back, many of the big names from the past are absent or greatly diminished: The Lemos and Onassis families of Greece, Hilmar Reksten of Norway and Daniel Ludwig of the U.S. Some have left the business, some own fleets a shadow of their former size. Replacing them are a wily band of new sea lords, building fortunes mostly through speculation in secondhand ships like the ones their predecessors sold. Four of the most talked about:

- Greek Cypriot Loucas Haji Ioannou, 60. Few people would recognize his name, but with 47 tankers totaling 6.2 million deadweight tons, Haji Ioannou controls the world's largest private tanker fleet. Until recently he traded actively in the war-torn Persian Gulf, where high rates help offset the risks that any ship in that area faces.
- London-based Sammy Ofer, 65. A

string of silver worry beads always in hand, Ofer owns and operates an estimated 60 tank and dry bulk ships totaling at least 3.3 million deadweight tons. Ofer's backers are said to include Chicago's Pritzker family. Ofer is thought to be an Israeli, but he is ultrasecretive and won't comment, perhaps because his outfit trades extensively with Saudi Arabia.

• Norwegian John Fredriksen, 44. In 1986 he was arrested briefly by Norwegian authorities for alleged oil theft and insurance fraud. The case is pending. Another Persian Gulf gambler, he controls 40 to 50 vessels estimated at about 4 million deadweight tons. He currently lives in Cyprus.

• New Yorker Michael Hudner, 41. While the sea lords of yesteryear built their fleets on bank debt, Hudner, a lawyer who used to package real estate partnerships, has gone the investor-financing route and already controls a 28-ship bulk cargo fleet. Unlike his flashy rivals, he prefers a plastic digital watch to a gold Patek Philippe and a 25-foot runabout to a 110-foot yacht by Benetti.

In many respects, Hudner is the new face of international shipping. He is using equity to replace the traditional reliance on bank debt that made the sea lords of yore so vulnerable to the uncertainties of the market.

Last autumn Hudner raised $20 million through an equity offering underwritten by Mabon, Nugent & Co. Thanks to its limited debt load, low operating costs and its tax-free status as an offshore shipping company, the resulting firm, B+H Bulk Carriers Ltd., is providing shareholders a remarkable 24% annualized return on equity. Now Hudner is putting together a similar and even bigger $60 million underwriting with Merrill Lynch for a 14-ship fleet to be known as B+H Ocean Carriers Ltd.

"Shipping is 25 years behind real estate in financing techniques," says Hudner. "We're not in the home-run business. We're looking for a safe on-base percentage."

Financier Laurence Tisch *(see p. 76)* is in the act, too. In 1983 his Loews Corp. started buying supertankers at scrap-level prices. It tried and failed to take its Majestic Shipping subsidiary public in 1986. That turned out to be good for Loews: Its $45 million investment has appreciated some 300%.

Or take Thomas Sweeney, who manages the $1.4 billion Fidelity Capital Appreciation fund. Since 1986 Sweeney has been investing in shipping stocks, and today has about 7% of his fund's portfolio in five companies: Overseas Shipholding Group, OMI Corp., Gotaas-Larsen Shipping Corp., Bergesen and Bulk Transport Ltd. Most now sell at 10% to 20% below their net asset value. Rising ship values and stronger earnings as freight rates climb make gains in these holdings almost certain.

New investment plays in shipping pop up almost daily. Stolt Tankers & Terminals, a liquid bulk shipping and distribution company, just came public at 9 times projected 1988 earnings. P&O Group, the U.K.'s largest ship owner, now has ADRs available over-the-counter in the U.S.

Speculating in secondhand ships is profitable enough already. And it will doubtless get more so once such big U.S. companies as Bethlehem Steel, USX and Reynolds Metals, which had built, then foolishly dumped huge company-owned fleets, rush back into the market as freight rates climb. Says Roger Jones, a Nassau-based bulk shipping consultant and director of B+H Bulk Carriers, "The day will come, within the next 18 months when they hit the panic button in the boardroom and word will go out t buy, build or long-term charter."

How much longer can the play i secondhand ships go on? Not only a prices rising to levels competiti with new-builds, but the existin fleet itself is aging. The useful life of typical merchant vessel is no mo than about 20 years, and by that me sure, some 80% of the tanker fle alone will be obsolete by 1991. Pa Slater, chairman of First Internation Financial Corp., a maritime financ firm, estimates that the industry wi need upwards of $12 billion annuall in the 1990s just to replace existin vessels, let alone expand. "There ar few private shipowners of sufficien size to be players because of the shee investment required," Slater says.

The conclusion seems to be that th day of the solitary sea lord is almos over, that colorful band being re placed by people who know how t tap the capital markets. The worl will still have ships, but it won' breed many more Aristotle Onassise or D.K. Ludwigs. ■

His neckties are most unbankerly, bu CoreStates' new chief executive runs a regional bank whose financial performance is the envy of the business.

Miniature Morgan

By Janet Novack

As many a smug old franchise has found, a pedigree is no protection from today's business turbulence. For Philadelphia National Bank—whose first president, George Clymer, signed both the Declaration of Independence and the Constitution—the moment of truth came in April 1981.

Since the mid-1970s, the conservative old bank had been earning substandard returns, and when April 1981 results turned out to be a particular bummer, it was "the last straw," recalls Terrence Larsen. Larsen, now chairman and chief executive of the parent company, was then the bank's economist. Moving decisively but quietly, the then chairman, G. Morris Dorrance Jr., ended the complacency.

Characteristically, the bank said little about the overhaul, preferring to let the results speak. Speak they have. From that troubled spring, $15.5 billion (assets) CoreStates Financial Corp.—as the parent company is now named—has risen to first in Salomon Brothers' ranking of 35 money center and regional banking companies, based on 1987 profits, credit quality, capital, productivity and liquidity. "They carry the sobriquet of a miniature Morgan," says Philadelphia investment banker James Lowry.

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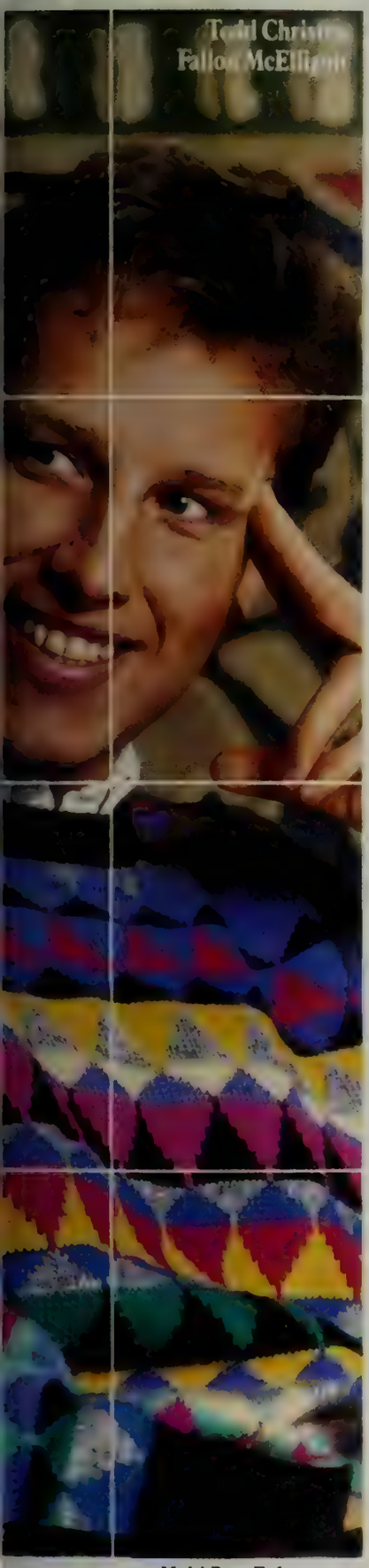

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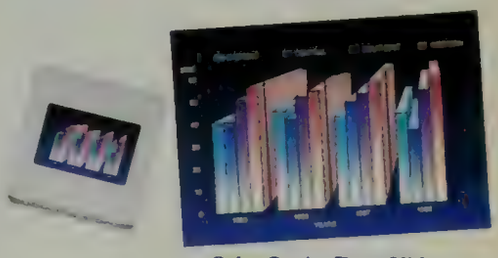

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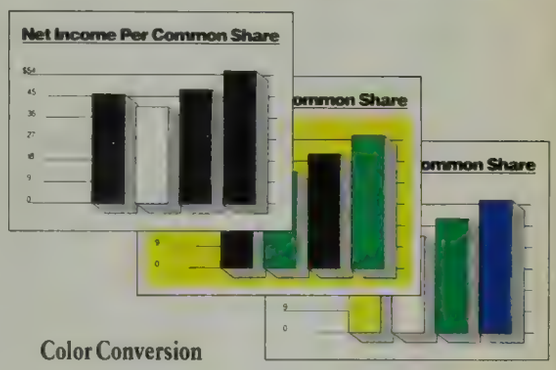

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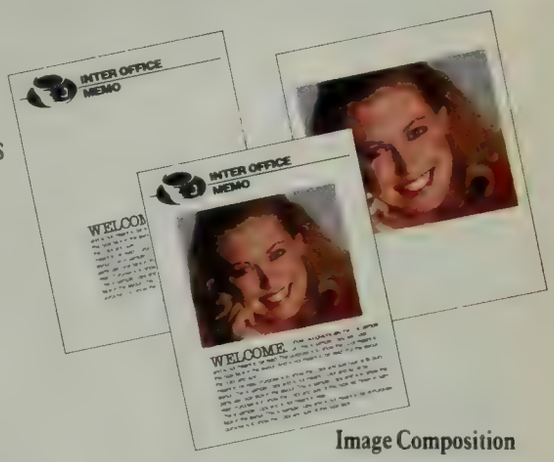

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CoreStates Chairman Terrence Larsen
No need to reach out for marginal loans.

CoreStates has built return on assets to more than 1%, compared with a 1987 average of about 0.6% for banks of similar size. Its 1987 return on equity was more than 16%, while the average for banks its size was 9%. CoreStates' nonperforming loans last year were a paltry 0.4% of assets, versus 3% for Salomon Brothers' 35-bank weighted average; its primary capital at the end of 1987 was 9.1%, versus 8% for the 35 banks.

The old Main Line bank has thrown off many, but not all, of its traditional ways. Dorrance, who retired as chairman on Jan. 1, is a reserved Philadelphian (related to the Campbell Soup family) who earned his M.B.A. at Wharton and spent 36 years at PNB. By contrast, the chubby, affable 41-year-old Larsen is a Chicago native who got his B.A. from the University of Dallas, earned his Ph.D. at Texas A&M and favors unbankerly emerald green ties. Vice Chairman Bipin Shah, 50, the chain-smoking brain behind CoreStates' electronic transaction services, was born in India and joined PNB in 1980 from American Express' card division.

Perhaps the smartest thing CoreStates has done since its 1981 revamping is recognize the potential in its existing transaction-processing business and move aggressively into new electronic services. By 1992 CoreStates expects half its earnings to come from such nonlending products as check processing, cash management, an automated teller machine network and point-of-sale terminals. These services already bring in almost 40% of earnings.

CoreStates is today the sole owner of the Money Access Machine (MAC) ATM network—the largest in the nation in terms of interbank transactions. MAC has 4,566 terminals in six states, 11 million cardholders and a lock on Pennsylvania, secured this year after rival Mellon Bank sold its network to MAC. In June CoreStates bought New Hampshire's Pocketban ATM network. In July it took ove New Jersey's rival Treasurer network which was majority owned by Firs Fidelity Bancorp.

CoreStates is also the largest ban player in the point-of-sale compute terminal business. (Competitors in clude J.C. Penney and McDonnel Douglas.) It has installed 6,700 termi nals at gas stations and stores in 4 states, (60% of the machines are o the East Coast), and will have 8,500 t 9,000 installed by year-end. These te minals process credit cards as well a teller machine debit cards, which in stantly deduct a purchase from th customer's account. Shah predicts th bank will have 20,000 to 25,000 ter minals by 1992.

These nonloan products and the fa revenues they bring let the bank prac tice old-fashioned lending restrain without forsaking earnings growth No need here to reach for marginal o risky loans. Dissatisfied with narrow ing spreads and fearful of a recession CoreStates held wholesale loa growth to 6% in 1987. The 6% lid wil stay on this year, even while competi tors grow at twice the rate. "If we're a half the growth rate for one period we'll have dry powder in another per iod," reasons Larsen, who emphasize he doesn't plan to grow more slowl than competitors over the long haul.

Despite the brake on commercia lending, earnings should be up abou 15%, to $4.50 a share, in 1988, an Larsen expects gains in the low to mi teens for the next three to five years Though the cult of the superbank seems on the rise, Larsen says he feel no immediate pressure to make a bi acquisition to join the ranks of th superregionals. CoreStates did bu Lancaster, Pa.-based Hamilton Ban in 1983 and New Jersey Nationa Bank in 1986. And it discussed merge with Baltimore's $17.1 billion (assets MNC Financial Inc. (FORBES, *Mar.* 7 but found that the banks' differin styles weren't compatible.

This slowness to merge owes t caution, not complacency. Larsen says he wants to expand in order to attract talent but adds, "I don't want to be rushed into anything."

As well as sensible caution, a fair amount of the old gentility remains. At its most recent presentation in Philadelphia to securities analysts, CoreStates treated the stock pickers to performances by a soprano and harpist and bused them to the exclusive Merion Cricket Club for tennis. But nobody should any longer confuse these bows to tradition with signs of hidebound attitudes. ■

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HEWLETT PACKARD

Most nonoil acquisitions by big oil ended in disaster. But Cyprus Mines has turned out to be an enlightening exception.

Better off on its own

By James Cook

FEW CORPORATE FASHIONS have come to a more humiliating end than the oil industry's late-1970s stampede into mining. Witness Arco's destruction of once great Anaconda Co., Sohio's dismemberment of Kennecott and Chevron's effort to absorb a wildly overextended Amax.

People said much the same thing would happen to Cyprus Mines, which Amoco bought in 1979, sank a lot of money into and finally dumped in 1985 by spinning it off to Amoco's stockholders. Did Cyprus sink? Far from it. It proved the exception to the rule of ruination through acquisition by big oil.

Cyprus was a copper and industrial materials company when Amoco bought it. As copper turned bad, Amoco put Cyprus into molybdenum, picked up some coal properties and added them to its other minin interests. Then coal, too, went bac When Amoco spun it off as Cypru Minerals in 1985, the compan looked like a disaster. It racked up first-year loss of nearly $20 million $452 million after some special write offs. But under Kenneth J. Barr, 61, th onetime Amoco executive who head up the company, Cyprus has turne out to be a winner. By 1987 Cyprus 1985 loss had turned into a $26 mil lion profit, and this year Cypru stands a chance of reaching $130 mil lion, $5 a share, on about $1.1 billio in sales.

Cyprus' recovery was a very nea thing. When it went public, Cypru was losing money in copper (Bagdad Copper) and molybdenum (Thompson Creek). It did have a highly lucrative coal contract with LTV Steel, bu then LTV went into Chapter 11.

Yet by then Ken Barr had already begun rebuilding the company. He took advantage of the depression in the metals business to expand Cyprus' position in copper and molybdenum, acquiring the Sierrita mine from Pennzoil, Lakeshore from Noranda Pinos Altos from Boliden Minerals Twin Buttes from Park Corp., Tonopah from Arco and, this summer, Inspiration Consolidated Copper from South Africa's Oppenheimer interests.

"Except for Inspiration," Barr says, "we bought our mines right, and didn't pay a lot for them. We always plan for the worst. For every property we buy, we ask ourselves, 'Would it hurt the company if we had a drastic drop in prices?' and we structure the deal so it will not."

The result is, with a capacity of over 600 million pounds, versus 159 million in 1985, Cyprus now shapes up as the U.S. copper industry's second-largest producer—after Phelps Dodge. Overall, Barr figures, Cyprus is probably lower cost than any other producer save Phelps Dodge.

The idea was to "integrate fragmented operations," as Ken Barr puts it, to make two and two add up to five by putting together properties that would be lower in cost together than they were apart. Thus, Twin Buttes will run its higher-grade ore through Sierrita's lower-cost concentrator only 4 miles away. Inspiration will pro-

Eric Lars Bakke

Cyprus Minerals' Kenneth J. Barr
Building big on the cheap.

cess concentrates from Sierrita, Bagdad and Twin Buttes that had previously been turned over to outsiders for smelting. So there were cost savings. Then metals prices took off.

At this point, Barr's caution actually hurt the company. Expecting a normal decline in second-half prices last year, Cyprus hedged 60% of its output at about 67 cents a pound. Instead, prices ran around 96 cents a pound. But Cyprus should get the full impact of the price level in the second half of this year. Luckily, Barr says, prices look as if they're going to hold up. "I thought we'd see the price going south, but that hasn't happened."

For the moment, at least, copper provides nearly 65% of Cyprus' operating net, with copper at $1 a pound or so currently, versus a low of 55 cents a pound a few years back. What goes up will, of course, go down again. But Cyprus now has other anchors, and there is plenty of room for the other divisions to increase their profits.

In coal, Barr has picked up a half-dozen properties at fire-sale prices. His best recent coal deal: buying Wyoming's mothballed Shoshone mine, which he converted to low-cost longwall mining, and whose output he committed to Northern Indiana Public Service under a 1.3-million-ton-a-year, 14-year contract. By mid-1988 Cyprus had recovered all production cost in the LTV contract and some of the lost profit as well.

Barr also created a new specialty metals division through the $90 million acquisition of Foote Minerals, the world's largest lithium carbonate producer.

Coming on fast is Cyprus' expansion into gold. Cyprus produced only 1,000 ounces last year, but it has four new mines producing, one in the U.S., three in Australia, and two under development, so that Barr expects to produce 110,000 ounces this year, 150,000 in 1989, 300,000 in 1991.

Is there a lesson in all this? Yes, and a simple one. It is that many businesses are better off on their own rather than as part of giant corporations. Amoco bought Cyprus at the wrong time, was unable to realize its hopes for it and finally was happy to be rid of it. Result? The Cyprus common Amoco spun off three years ago at around 14 is selling these days at around 31. "We could never have done this if we were still part of Amoco," Barr concedes. "If nothing else, you'd have to compete with the rest of the company for capital, and in a company as big as Amoco the sort of thing we've been doing out here would be simply too small." ■

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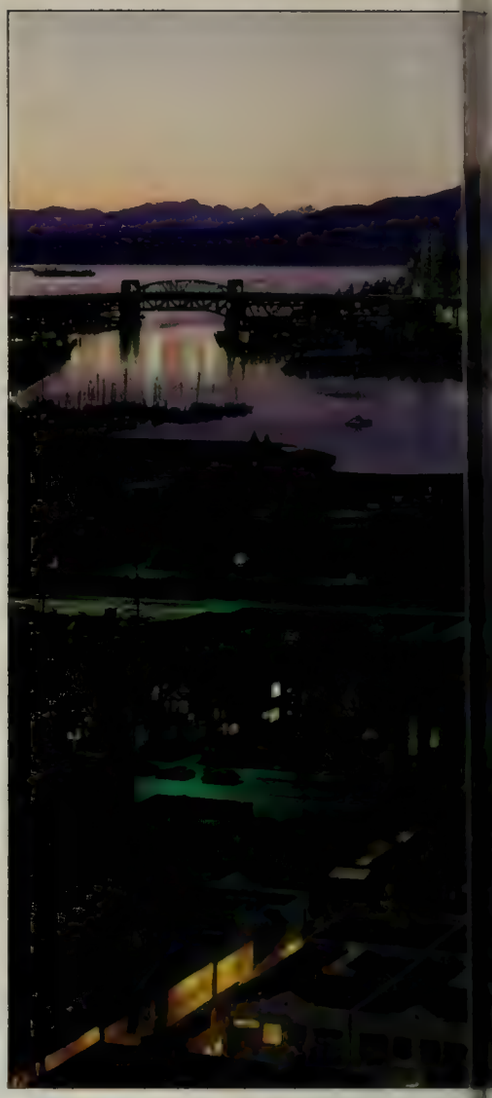
Fleeing communism, Hong Kong Chinese are seeking refuge in Vancouver. The result: a real estate boom.

Yacht people



By Ellen Paris

A STORY CURRENTLY making the rounds in Vancouver tells of a real estate agent showing houses to a couple from Hong Kong. After looking at 11 homes in one day, the couple stands aside, all but silent. Concerned, the agent offers to take them out the next day in hopes they can find something they like. No need, they say finally. They decided not to buy one of the homes they looked at, they would just take the other 10.

Not every Hong Kong Chinese flocking to Vancouver these days is rich, but many are. The push: 1997, when possession of the freewheeling British crown colony reverts to China. The pull: Canada's lenient immigration laws. In January 1986 Canada began granting immigrant status to foreigners willing and able to invest $207,500 in a project the government deems beneficial to the economy. Each applicant must also show a net worth of $415,000. The results: Last year 3,301 Hong Kong Chinese immigrated to British Columbia (almost all going to Vancouver) compared with 1,207 the year before.

Vancouver already boasted one of North America's largest Chinese populations—about 17% of the city's 435,000 residents. The roots of many of them trace back to the late 1800s, when Chinese laborers arrived to help build the Canadian Pacific Railway. So the city had history as well as its mild climate and Pacific Rim location going for it. And, in contrast to teeming Hong Kong, the city is clean and studded with sprawling parks. Minutes away you can ski, hike or sail. The city has an excellent public school system, and colleges such as the University of British Columbia welcome foreign students.

But Vancouver's chief appeal for the new immigrants—"yacht people," one local magazine dubbed them—may well be economic. Vancouver real estate, a bargain compared with property in San Francisco and Los Angeles, is a downright steal compared with Hong Kong. A 1,000-to-1,500-square-foot apartment would rent for $3,735 to $6,225 a month in the colony, or sell for about $664,000. Last month Chinese investors bought an 18-unit apartment building on Vancouver's west side for about $1.2 million. Small wonder that in the last 15 years Hong Kong investors have poured an estimated $1.6 million into greater Vancouver real estate.

Concord Pacific's Stanley Kwok
Flashing a green light.

More money, much more, is on its way. A green light of sorts flashed on in April, when Hong Kong billionaire Li Ka-shing (FORBES, *July 25*) beat out Canadian competition for rights to develop the former Expo 86 site, a 50 block area downtown. Over the next 15 years Li will pay the provincial government up to $415 million for the land. Plans call for a $1.7 billion office/retail/hotel/residential development that will transform the area. Overseeing the project will be Stanley Kwok, senior vice president of Li's Concord Pacific Developments Ltd.

Li and his fellow Hong Kong Chinese strike Canadians as a patient lot—and a welcome change from many U.S. and Canadian developers. "It's obvious these investors are in it for the slow dime, not the fast nickel," says Peter Maddocks, vice president and general manager of commercial real estate at Royal LePage, one of Canada's largest real estate companies. "I have seen yields [on real estate investments] go from 8% to 9% a year ago to 5½% to 6% today," says David

Stefan Schultz/Northlight

ancouver at dusk with Expo 86 site in the background
Iong Kong Chinese, says one real estate agent, are "buying futures."

Goodman, a broker of apartment uildings at National Real Estate Service. "We call it the Asian yield." Vhy settle for less than what Canadian government bonds yield? Goodman explains: "They are buying fuures. They want quality, choice real state. What's expensive today is heap tomorrow."

Typically, a Hong Kong family reooting in Vancouver buys a home nd enrolls the children in school. 'he husband then shuttles between Iong Kong and Vancouver as often as nce a month to oversee the family usiness. These jet-set commuters pend so much time airborne they're alled "astronauts."

Signs of the times: In the lobby of Li 'ai Lau, one of Vancouver's best Chiese restaurants, there's a tote board isting the latest Hong Kong stock uotes. (One recent Hong Kong immirant claims Vancouver's Chinese ood is equal to Hong Kong's.) In cerain areas of Vancouver, English is ast becoming the second language in choolrooms.

As a result of the Hong Kong invaion, residential real estate prices are booming. Not only are the Chinese paying hefty prices for houses, often sight unseen, but a good many are paying cash. Home prices in the prime West Vancouver, Shaughnessy and Kerrisdale areas have shot up 25% since January. In the Arbutus neighborhood, popular with many Hong Kong Chinese, a 40-year-old, two-bedroom, 1,200-square-foot bungalow that sold for about $191,000 in January would fetch about $262,000 today. Condo prices are rising, too, but not as fast as those of single-family homes. Says Christine Jung, a residential broker: "The Chinese want to own the dirt underneath the house."

There are predictably mixed feelings about the new immigrants. "We need foreign investment, but we hate it at the same time," says Michael Goldberg, professor of urban land economics at the University of British Columbia. "It's the stop-it-I-like-it phenomenon." Resentment is building. Says apartment broker Goodman: "Most locals can't compete with these offshore investors who pay cash and will live with a 5½% yield."

Cultures clash as well as economic interests. In older neighborhoods like Kerrisdale and Shaughnessy, many longtime residents are aghast when Chinese buy a home and tear it down in order to build a large boxy house with a skimpy yard. "These houses don't blend with the neighborhood, and there has been some backlash," says James Cheng, a Vancouver architect. Three months ago the city changed building codes to preserve the character of old neighborhoods.

Look for Hong Kong investors to do more than buy up housing stock. They are starting to develop shopping centers, office buildings and apartments. Many of the trendy shops and cafes along Robson Street, Vancouver's most fashionable thoroughfare, now have Chinese landlords. The bankers, at least, are happy. "There is a difference in their attitude," says Jim Cleave, chief executive of the HongKong Bank of Canada. "There are no quick flips with them. That lowers the lender's risks and makes me sleep easier at night."

Is there an economy in the world that couldn't use more investors like that? ■

Toronto-Dominion is a little unconventional among the Canadian banking giants, especially in being so profitable.

Do it my way

By Edward F. Cone

CANADIAN BANKS are a different breed in many ways from their U.S. cousins. National banking has long been the rule in Canada, resulting in the concentration of assets and power in just five major institutions. But don't think this is a recipe for high profits. Four of these giant banks lost money last year: Bank of Montreal, Canadian Imperial Bank of Commerce, Scotiabank and Royal Bank of Canada.

But there is a standout: Toronto-Dominion, the smallest of the five, stayed in the black even after boosting its loan-loss provision for Third World debt to an industry-leading 41%. With those reserves behind it, Toronto-Dominion will shine this year, probably earning about $580 million, or $3.90 a share (all figures given are in U.S. dollars). That would be a 1.23% return on its $48 billion in assets, nearly twice that of its nearest Canadian competitor, and far ahead of the 0.85% U.S. industry average. And Toronto-Dominion is no flash in the pan: It has consistently thumped its competitors in both return on asset and stock performance over the las decade.

Chairman Richard Thomson, 54 has an engineering degree and a M.B.A. from Harvard. Cool in manne and measured in speech, he is ur afraid to stand out in the crowd. Whe the other big banks acceded in lat June to government pressure to pro vide some services free to retail depos itors, Toronto-Dominion refuse "Pricing policy is an important part c delivering service," says Thomsor "We are not about to give up tha right to the government."

Toronto-Dominion is different i other ways, too. It was the first Cana dian bank to get around the country' ban on executive stock options by in stituting a phantom stock plan which hands out bonuses based o increases in the bank's share price.

Another key difference: Alon among the major Canadian banks, i hasn't bought an investment house i the wake of 1987's deregulation of th industry by Parliament. Thomsor says he can't see spending hundreds o millions of dollars to buy an asset a two to four times book when he car build from scratch. "I'm not sure why other banks think they can integrate successfully," he muses. "We didn' know how we could buy an invest-

IT TOOK NAVISTAR TO MAKE THE BIGGEST MOVE IN U-HAUL'S HISTOR

24"

nent firm without destroy-
ng it."

It's not that Thomson doesn't want to play the game, he just wants to play on his terms. Toronto-Dominion already has a major presence in one end of the market through its ownership of the Green Line discount brokerage house, Canada's largest. Its corporate advisory and money markets including foreign exchange trading, commercial paper and Canadian government instruments) businesses are well established. "We should be number one in money markets in Canada within three years," Thomson says. The bank is already manufacturing its own line of mutual funds.

Toronto-Dominion does not become too attached to its businesses. "We jumped into interest rate swaps early," says Executive Vice President William Brock, "and made a lot of money there, which we used to fund ourselves cheaply." Now, he says, with spreads thinned by competition, Toronto-Dominion has largely gotten out of the game. The bank also has scored large gains in securities trading and real estate partnerships, but it views those businesses as changeable as well.

Thomson has halved overseas operations to eight since 1985, leaving only those in London, Nassau and the Pacific Rim. The bank has cut its U.S. offices to six and intends to shun the retail business here, even if, as is likely, some of the other big five banks follow the Bank of Montreal south of the border.

Yet Toronto-Dominion's corporate lending business here has grown as large as its domestic counterpart. Typical of Toronto-Dominion's style has been its move to leadership in cable TV lending, where it will lend as much as eight times a system's cash flow, versus an industry norm of six. "They are knowledgeable, fast and cut through the crap to get the job done," says Bernard Schotters, vice president-finance at Tele-Communications, Inc. All loans come to Toronto for approval, and most are out in a day. Risky? Toronto-Dominion is the only nonregional bank in North America besides Morgan Guaranty to carry an AAA credit rating.

"Being a good banker means leaning against the wind sometimes," Thomson says. "We have a pretty clear idea of what it is we want to do, and we think we can do it." ■

Peter Sibbald/Picture Group

Toronto-Dominion Chairman Richard Thomson
"We have a pretty clear idea of what we want to do."

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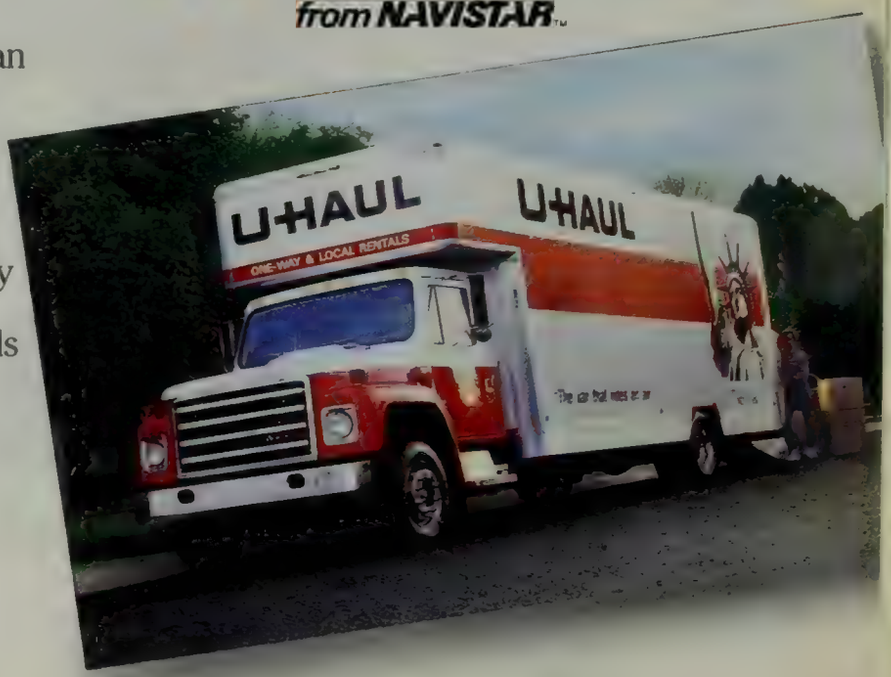

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Merchandisers

Gedalio Grinberg helped make affluent Americans conscious of what they wear on their wrists. Can he sell $3,000 luggage sets as successfully as he sells $10,000 watches?

Is traveling well the best revenge?

By Phyllis Berman

WHEN ASKED TO SAY a few words at his 50th-birthday bash, at Manhattan's "21" Club, Gedalio Grinberg spoke briefly in his Cuban-accented English and ended on an emotional note: "God bless America." He said it with such sincerity that many guests had tears in their eyes. That was six years ago, but friends never tire of telling the story. And with good reason.

The Cuban-born Grinberg was blessing his adopted country for ac cepting him as a refugee from Castro' tyranny. But he also was blessing i for providing the stage on which hi marketing and business talents coul find full play. Grinberg came here 2 years ago with just enough cash to las him seven months and has becom rich selling expensive Swiss watche to Americans.

In the fiscal year ended in January Grinberg's North American Watc Corp. sold $128 million worth of Pia gets, Corums, Concords and Mova dos—priced from as high as $500,00 down to $195. On this it earned $4. million; operating earnings wer $12.7 million before interest charge and taxes. Grinberg and his family having bought up most of the share from a partner and the public, ow around 70% of the firm. The Grin bergs are worth some $30 million.

Although Grinberg's company wa originally just a distributor in the U.S of Swiss-made watches, today it own outright Concord and Movado. Prio to Grinberg, most Americans, unlik

North American Watch's Gedalio and Efraim Grinberg

Watches or luggage, the real product is prestige and pride.

Europeans, were perfectly content to tell time by the fairly nondescript Elgin or Hamilton or Waltham they got when they graduated from high school. Grinberg helped make Americans conscious of their watches and made the glint of gold on the male wrist a status symbol. Today a top-of-the-line Piaget retails for seven times the price of the average new car.

Now, at 56, Grinberg is about to try something even tougher. He wants to do for luggage what he did for watches: turn a virtual commodity into a luxury item. Eight months ago he bought Wings Luggage, a 76-year-old firm with a good name but almost no sales.

Maybe it won't work in luggage as in watches, but they said the same thing when Grinberg was peddling $1,000 gold watches to retailers from a suitcase as he traveled across the country. Grinberg had been distributing Omegas and Piagets in Havana—wealthy Latins were already watch-conscious. When he arrived in Miami in 1960, at age 28, he borrowed money from relatives to purchase the U.S. distribution rights for Piaget, the venerable but little-known maker of quality, high-fashion watches. It was no easy sell. Why would anyone pay $1,000 or more for a watch? On at least one call, the retailer wailed: "You want me to sell that? That's the most expensive watch in the world." Grinberg turned that negative into a plus by developing an advertising campaign that boasted "Piaget the most expensive watch in the world." It was slow slogging. By 1969 Piaget's U.S. sales were just $3 million.

Grinberg added the Corum distributorship in 1967, when Corum had U.S. sales of $750,000. Corum was a luxury watch but a bit downscale from Piaget. Thirteen years later, Corum's sales had grown to $10 million.

In 1970 Grinberg had bought Concord, a small Swiss watchmaker, which had until then made mostly private-label watches. Concord was further downscale. He made visits to the factory and suggested a new design, which became the very successful Concord Mariner sports watch. By 1980 Concord sales had grown from $750,000 to $40 million.

You are what you carry

Master marketer Gedalio Grinberg initiated his new Wings Luggage ad campaign by sending a researcher to the archives of *Harper's Bazaar*. The ad above is almost an exact replica of a Wings ad from 1953. The researchers located the TWA Constellation at the Pima Air Museum in Tucson, Ariz. The prop and the model were chosen to recall an era when only the elite traveled by plane.

"We are creating an aura of status here," says Grinberg. "These ads will position Wings as a status symbol that says something not just about yourself but also about America." Each ad will bear the line "Impeccable design. Masterful craftsmanship. Made in America since 1912," reinforcing Grinberg's contention that U.S. manufacturers still make the best luggage. "You come through the door with your luggage," says Grinberg, "and you are somebody." Putting it another way, you are what you carry.—**P.B.**

More recently, in 1983, he picked up Movado. This is the lowest-priced line Grinberg handles, Movados going for as little as $195. The market was among people who wanted to enhance their prestige by wearing a watch with a recognized Swiss name but couldn't afford the higher-priced lines. Sales of Movado watches have grown from $4 million to $60 million in the years that Grinberg has owned it.

There's no secret to selling this kind of product. It takes two things: plenty of money for prestige advertising—and flair. Grinberg always had the flair, and as his company grew he poured more and more money into advertising, treating his advertising and promotion budget almost as a manufacturer would his capital spending budget—as an investment, not an expenditure. Though he has never achieved the name recognition or the sales volume of Rolex, the name of the game is the same.

You need advertising to persuade people to spend $30,000 or more for a product that won't tell time any better than a $12.50 quartz watch—and won't perform as many functions. But the advertising does more than persuade people to buy: It assures them that the non-Piaget-wearing masses will envy the wearer and admire his taste. Thanks to the advertising, they will know how expensive—priceless, perhaps—is the object that adorns his wrist. The ads create an aura of prestige that adds greatly to the perceived value of the product.

North American spent $25 million last year on advertising—a huge 20% of sales. Says Grinberg: "Of all the industries, we spend more [as a percentage of sales], except maybe for cosmetics. On established brands we spend 10% to 15% of sales, but on new product we will spend 25% of sales." Despite this spending, Grinberg's older lines have started to mature, and sales have slowed.

So he is turning his attention to luggage. Will the formula work? Like

Piaget, Wings Luggage has a substantial pedigree. Its water-repellent tan-and-brown diamond pattern in cotton jacquard with leather trim and 24-karat gold-plated brass hardware was codesigned by Gerald Murphy, a high-living pal of F. Scott Fitzgerald's who was the subject of the bestselling *Living Well Is the Best Revenge.* But all that is past glory. When Grinberg picked it up for a paltry $300,000, sales were just $1 million, and its rundown, filthy South Bronx factory, once employing 125 workers, had only 25.

Grinberg will have to persuade people to spend $3,000 for five matched pieces of luggage; most travelers are used to buying five pieces of discounted luggage for about $500. But as with quality watches, the real product is prestige and pride, not utility. Having noticed Wings' advertising, other travelers will be impressed when they see the luggage. So will concierges, hotel clerks and bellboys.

At $3,000, Wings is positioned way above ordinary luggage in price, but comfortably below the $9,000 Louis Vuitton pieces or $40,000 Hermès pieces would cost.

To get merchants to push such products, it is important to protect them from discounting. That means distributing through specialty stores such as New York's Crouch & Fitzgerald and Washington's Camalier & Buckley. Grinberg's efforts to prevent discounting of his watches have gotten him into trouble at least twice. In 1979 North American paid over $200,000 to Chicago retailer Trabert & Hoeffer to settle a pricing dispute. More recently, Grinberg settled out of court with Westbury, N.Y.'s Fortunoff. Fortunoff had sued after North American cut off its supply of Movado products. Grinberg now has an in-house counsel to advise him on how far he can go, but clearly he will do everything legally possible to keep his products away from discounters.

As a virtually private company, North American can take risks on new products that most public companies shrink from. This is in part because of its Drexel Burnham connection. Drexel is more interested in cash flow than quarter-to-quarter earnings. Indeed, Grinberg is just the sort of entrepreneur Drexel likes to get behind. North American did its first junk bond financing via Drexel nine years ago, when the status watch business was booming. It was the first private company to offer junk bonds. The company raised $14 million, happy to use this relatively permanent capital to replace bank debt. Grinberg admits that at one point, without Drexel, the bankers might have put him out of business.

Is the formula for selling status watches transferable to luggage? Maybe, maybe not. "You can wear a status watch literally everywhere, from the boardroom to the bedroom," comments an old-line luggage manufacturer. "But how much time are you really seen with your luggage?" Chimes in fashion consultant Emily Cho, "Who wants to give off those kinds of signals to baggage handlers?"

Listening to the skeptics, Grinberg smiles and remembers that the experts said the same thing about costly watches. His first media assault for Wings is slated for September. He plans to spend $1 million advertising Wings in magazines such as *Town and Country, Vogue* and *Travel & Leisure.* That, he told FORBES, plus a slight redesigning of the vintage 1949 product, will bring a tenfold increase in sales within one year, to $10 million.

Beyond luggage, Grinberg has other plans. His 30-year-old son Efraim, Brown graduate, has worked in t business for eight years. With Jam Reilly, 47, president of North Ame can Watch, he is launching into t retail business for the first time. September they will open eight M vado boutiques in department stor such as Macy's and Woodward Lothrop. In December they will ope their own Movado boutique on Ma hattan's Madison Avenue. The bo tiques will carry not only Movac watches but also handbags, scarv and sunglasses, many marked wi the Movado signature gold dot. Gri berg feels the Movado aura, with i emphasis on good modern design, wi appeal to an intellectual, arty crowc

We asked Gedalio Grinberg why h was launching risky new ventures an age when most successful peop would be thinking of taking life eas "To look back," he said, "mear you're getting old. I want to look t the future. I want to be young." ■

The Up & Comers

Lessons

Fortunately for its competitors, Japan ha kept women out of serious business ca reers. Hiroko Minami is one of a neu breed of entrepreneurs showing what thi immense untapped resource can do.

"I am a business person"

By Richard Phalon

FOR ALL ITS vaunted efficiency, Japanese business grossly wastes one of Japan's most precious resources: its 47-million-plus working-age women. Once married, Japanese women have traditionally been expected by society to disappear into the home.

But then there is Hiroko Minami, 41. "I am a business person," she says, describing how she turned a struggling foreign language teaching business into a multinational corporation that will probably earn around $1(million this year on $50 million ir revenues. "Our students are custom ers, our product is language, and ou staff must be service-oriented," she says in the softly accented English she began studying in junior high.

Minami's Bi-Lingual Corp. grossed about $24 million last year from a cluster of 19 schools—one each in New York City and Seoul, Korea; the balance in cities throughout Japan. Minami expects the New York outlet, opened last year, to do a brisk trade teaching Japanese to Americans. But

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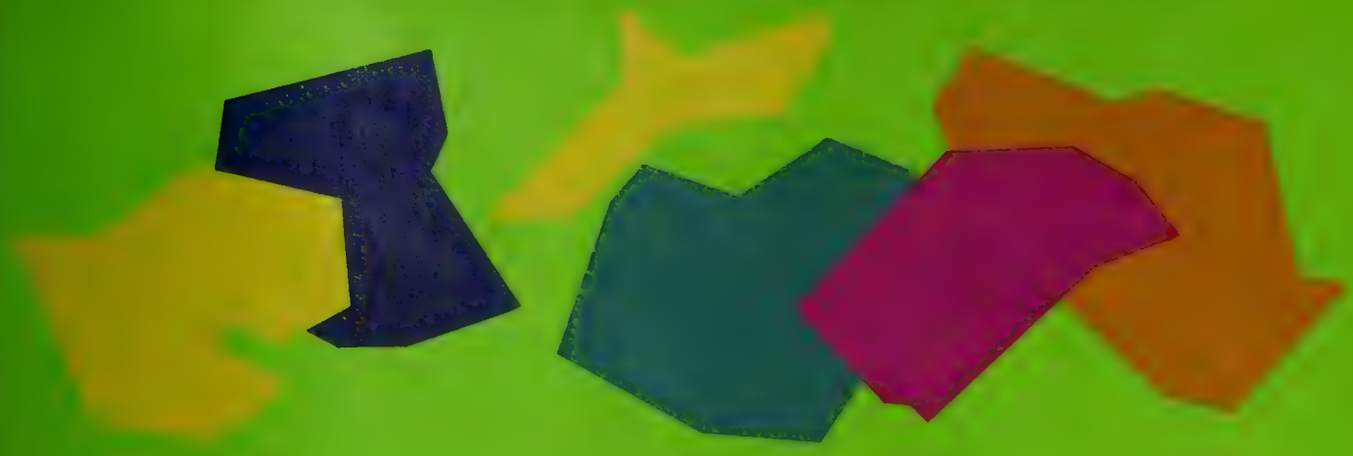

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Bi-Lingual's Hiroko Minami
"My husband wasn't very generous, so I didn't have any money."

Peter Frey

the heart of the business is still teaching English to Japanese.

Minami opened her first school in Otsu, a small town outside her native Kyoto, in 1973. There were four classrooms and, for staff, two teachers and a receptionist. Startup costs: about $15,000 at current exchange rates. "It sounds very little," recalls Minami, "but for me that was a lot of money."

Most of the startup capital was advanced by Minami's father, who owned a small packaging materials plant. What Minami brought to the venture was four years of undergraduate study in a Catholic women's college run by an American order ("where I learned American English"), three years of graduate work in American literature, and unquenchable optimism. "In business," says Minami, "one must always be optimistic."

The Otsu school's first newspaper ad brought in 80 students, a modest beginning. The problem is that language students are an optimistic lot, too. Early enthusiasm often flags with the discovery that verb forms can be learned only by relentless memorization. Turnover tends to be high.

The turnover worry was compounded by a sharp change in Minami's personal life. After three years of marriage, she and her husband were divorced soon after she opened her first school. "My husband wasn't very generous, so I didn't have any money," Minami recalls.

In Japan, husbands are often not required to pay alimony. With a two-year-old son to raise, making a go of the Otsu school suddenly became critical. "I was on my own, a Japanese woman raised to be a housewife, with no dream of becoming a businesswoman," Minami recalls. "I made a lot of mistakes. But I learned from my mistakes; 'I read a lot of business books; I imitated what other good companies were doing; and I imagined what I wanted my business to be."

The economics of such a business are hard to beat. Major operating costs—rent, utilities and staff—are fixed. Once you get by break-even, profits expand almost geometrically. Among upwardly mobile Japanese, there is a mania for English study. This allows Minami to charge her 20,000 students tuition that ranges from $400 to over $2,000 for a several-week course. On economics like these, Bi-Lingual's new schools generally reach break-even within three months, although the New York school is running a deficit.

Given the low barriers to entering this business, it is no surprise that competition is intense. So Minami has focused on differentiating her product and learning how to promote it. She put much thought into analyzing Japanese from the point of view of English grammar, with the idea of creating reference points that would hel the blunt concision of English to g down more easily among Japanese "We Japanese are a very emotiona people," explains Minami, "so ou language is vague and ambiguous."

Minami also added familiar mne monic devices like jingles and rhyme to her teaching system. But it was no until 1982, nine years after startin her business, that she felt confiden enough to expand beyond Otsu an open a second school, this one in Kyo to. Since then, the pace has quickene remarkably—three new schools i 1985, four in 1986, and eight last year

The expansion has been finance out of cash flow, which has in tur benefited from Minami's use of ambi tious women who, like Minami her self, have been excluded from caree jobs. The managing directors of all o Minami's schools are women. Mi nami herself scouts out new location on foot, oversees all the decorating and writes all of Bi-Lingual's advertis ing copy herself.

"We women at Bi-Lingual have cre ated something new," says Minami who expects her company to net a minimum of 20% on its $50 millior in sales this fiscal year. "The numbers will show males that we are entitled to respect." What if Japanese business were to encourage participation of the country's women? There's a sobering thought for Japan's competitors. ■

ı 1914, when the Panama Canal was finally carved out, Allendale's engineers had been cutting losses for 79 years.

took $352 million and ten years. And when chief engineer rge W. Goethals watched the first ship steam through the l, Allendale had been setting a steady course for 79 years. ı fact, former Allendale president John R. Freeman, him- an engineer, served as consultant during the construction ıe canal.

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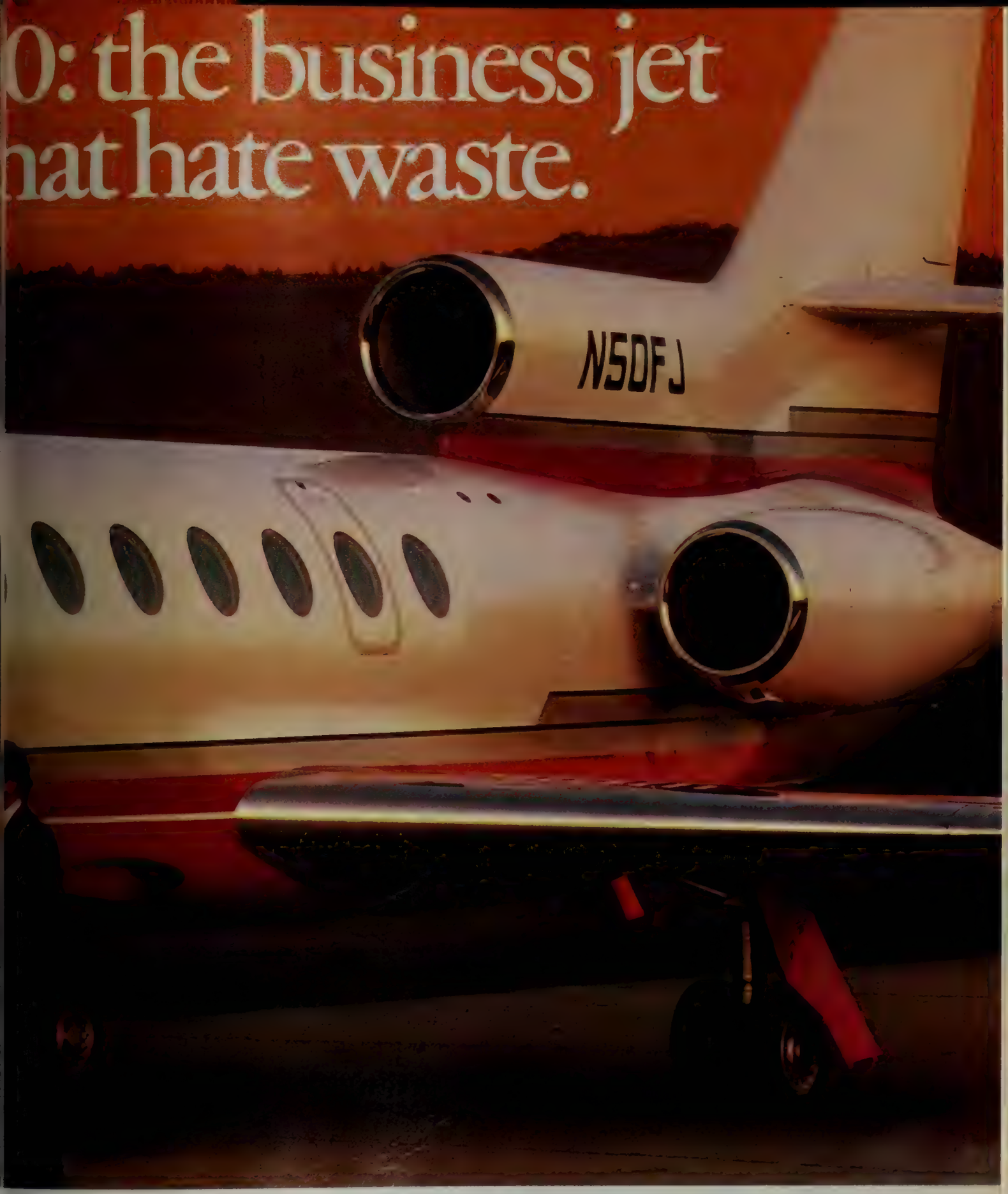

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Cut flowers awaiting distribution after auction at Naaldwijk, Holland
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John Sturrock Network Contact

In Holland in 1636, a rare tulip bulb sold for the equivalent of 19 tons of cheese. Now a bulb will get you only a sliver of goat cheese, but Holland's free market flower farmers have never had it so good.

Tulip bulbs revisited

By Peter Fuhrman

EUROPE'S 16 MILLION mollycoddled farmers this year will receive more than $30 billion in subsidy and set-aside payments. Surplus butter, milk and wine hoards mount as European taxpayers bleed themselves to encourage their farmers to grow more than anyone can eat.

Little Holland is home to 16,000 flower farmers. Curiously, however, there are no mountains of surplus cut flowers. Why not? Because Holland's flower farmers fend for themselves. No subsidies, no price-rigging, no import restrictions.

Are the flowermen hard up? Not at all. Europe's least protected farmers are also among the most successful. On a quarter-acre plot of land, a flower farmer can easily net over $45,000 per year. Last year Dutch flower farmers exported a record $1.4 billion worth of cut flowers—four times the level a decade earlier. All told, sales in 1987 of Dutch horticultural products reached $3.3 billion.

Ted Zwinkels is a good example of the marketwise Dutch flower farmer. Zwinkels, 50, lives and farms in the Westland region, near The Hague. This low-lying spur of Holland is the flower capital of the world. Last year the area produced around 2.3 billion stems, with great variety as well as quantity and quality. With virtually all the land covered by greenhouses, the Westland landscape looks like a space colony.

Zwinkels has been growing flowers for 28 years, and owns a quarter-acre glassed-in enclosure where he grows three different types of lilies year-round. Last year he sold $500,000 worth of cut lilies. He times his planting so that a large crop of top-quality lilies is ready for harvest in mid-May. Prices are peaking then, as Americans celebrate Mother's Day.

Says Zwinkels confidently: "If lily [prices] fall, I can change over to chry-

santhemums."

After harvesting his crops, Zwinkels sells the flowers at one of Holland's nine wholesale flower auctions, cooperatives run by the growers. These auctions establish a daily world price for 33 types of flowers. They are the backbone of the Dutch free market, attracting buyers from around the world.

The second-largest of these auctions is held at Naaldwijk, up the road from Zwinkels' farm. Beginning each morning at 7, over 400 buyers congregate in the auction rooms to bid on crates of flowers that move swiftly across the auction room on electric carts. At the Naaldwijk auction alone, more than 8 million flowers—from Holland and other producing countries—are sold.

Included in that daily average are $1 million worth of foreign cut flowers, including carnations from Israel, roses from Italy and orchids from Thailand. These will be auctioned off to Dutch buyers, who then reexport the flowers to other parts of Western Europe and to the U.S.

Besides cut flowers, bulbs are also big business here, though not as big as cut flowers. Bulbs have a long history in Holland. It was 350 years ago that a fascination with exotic tulip bulbs inflated the most colorful speculative bubble in history.

At its height, a single rare bulb had been bid up to the cost equivalent of 19 tons of cheese, about $135,000 in today's dollars. And then it ended. "Speculation in tulips," went a 17th-century Dutch saying, "made people rich by the hundreds and poor by the thousands."

The best tulip today could be exchanged for about a quarter pound of goat cheese, but the bulbs are still big business in Holland, whose 5,000 tulip bulb growers divvied $700 million in sales. American gardeners are good customers, but the bulbmen's best customers are farmers like Ted Zwinkels, who use the bulbs for growing cut flowers, then toss them out and buy new bulbs the following year.

Dutch flowermen are convinced there is much potential among U.S. consumers. Per capita cut flower consumption in the U.S. is a modest $20 per year, 40% lower than in Holland, Switzerland and Italy.

"In the U.S. flowers are still sold mainly for weddings and funerals," sighs D.A. Schuitemaker of the Flower Council of Holland, based in Leiden. "We need to sell flowers to the impulse buyer." One big snag: In the U.S. most flowers are bought over the telephone from florists who then pick out the flowers. More than one of America's 30,000 florists has failed to resist the temptation to fatten markups by substituting cheaper flowers from Colombia, say, for the higher-quality Dutch products.

In Japan, an enticing market, local flower farmers are heavily protected. In a country where *ikebana*, or flower arranging, is a national pastime, the Dutch sell only $15 million worth of flowers a year. Last spring the Japanese relented somewhat and permitted the Dutch to sell a few more tulip bulbs. Even so, the Dutch can sell only 31 of their 5,000 bulb varieties. Open quotas? No. This is just another example of a crude Japanese nontariff barrier, this one based on an irrational concern with dirt and bugs. ■

Sears, Roebuck & Co. certainly, definitely, clearly wants to be in the financial service business. But that doesn't mean it will stay in the brokerage business.

Will Dean Witter go on the block?

By Steve Weiner

Is Sears, Roebuck & Co. considering sale of Dean Witter Reynolds Inc., the stockbroker and investment banking portion of its $4 billion (revenues) financial services group?

The Chicago-based retail, real estate and financial services company says no. The Dean Witter group is the core of its financial empire, the company insists. It issues the Discover credit card, manages $38 billion in mutual funds, writes, services and sells mortgages, makes auto and home equity loans and, with its retail brokerage and investment banking arms, serves as the umbrella for the Sears Financial Network. "We are strongly committed to the full-service

Scott Morgan

A Sears financial network counter
Stockbrokers are so expensive.

retail brokerage business," says Robert E. Wood, a Dean Witter senior executive vice president.

But that policy is not necessarily set in concrete. After three years of study, Dean Witter has begun to explore what the company calls "alternative distribution channels" for such products as mutual funds and auto and home loans. "We want to see if there is a way, separate from the broker-dealer, to sell these products," Wood acknowledges. "We have products we would prefer not to sell through highly commissioned people"—meaning, of course, stockbrokers.

Easy to see why. Licensed brokers collect as much as 40% of commissions, and even minimally productive Dean Witter salesmen earn about $40,000 a year. An elaborate, costly research and clerical support structure is needed to serve that broker. In short, a brokerage firm is not the most efficient distribution system for mutual funds—which individual investors are coming increasingly to prefer over stocks. Nor is it a good way to sell loans, insurance or credit cards.

Committed to being a major factor in financial services, Sears nonetheless seems to wonder whether it needs to be in the brokerage business. Keeping up with Merrill Lynch and the other majors is increasingly expensive. To maintain its retail reach, Dean Witter has been adding brokers at the rate of 1,000 a year. But its customers, like all retail customers, are staying away in droves. Dean Witter, by one informed estimate, doesn't begin to make money on an account until at least $25,000 is in the client's portfolio. Most accounts thus aren't profitable. This year commission revenue is down 20%.

"Sears is in low-cost distribution of mass-market products; Dean Witter is in high-cost distribution of expensive products for rich people. It's a cultural mismatch," says Edward Weller, a partner with Montgomery Securities of San Francisco. Only 20% of Dean Witter's 2 million account holders do business with other parts of Sears, but more than 60% of customers at the insurance group, Allstate, also are broader Sears customers.

Mutual funds? Fidelity Investments, a mutual fund manager much admired by Sears, has raised $81.6 billion in assets largely through the mail, by phone and through 55 big-city offices staffed by salaried employees earning, at most, $30,000 a year.

Discreetly, Sears is exploring non-brokerage distribution channels for financial services. Discover cardholders are getting direct mailings explaining how easy it can be for them to get auto loans from Sears. "Loan center" kiosks have popped up in Sears stores inside the Sears Financial Network service area. Likely, too: more direct mailings using the vast and detailed Sears computerized consumer data bank (FORBES, *Mar. 7*). To help coordinate all this, the Dean Witter marketing department has been moved from New York City, home base for the broker-dealer, to Lincolnshire, Ill., the Chicago suburb that serves as headquarters for the group's consumer banking division.

And prices are right. Based on recent deals, Dean Witter could easily fetch $1 billion on the open market.

No surprise, then, that Dean Witter's fate is being actively discussed in Chicago's Sears Tower. Sears moves slowly and deliberately, but if it can create a new way to sell its loans and packaged products, it may decide the retail brokerage business just doesn't fit in with its overall plans. ■

Knight-Ridder has for years run good newspapers but turned in a mediocre financial performance. Does the new man at the top signal a change in the latter?

Knight-Ridder shifts into high gear

By John H. Taylor

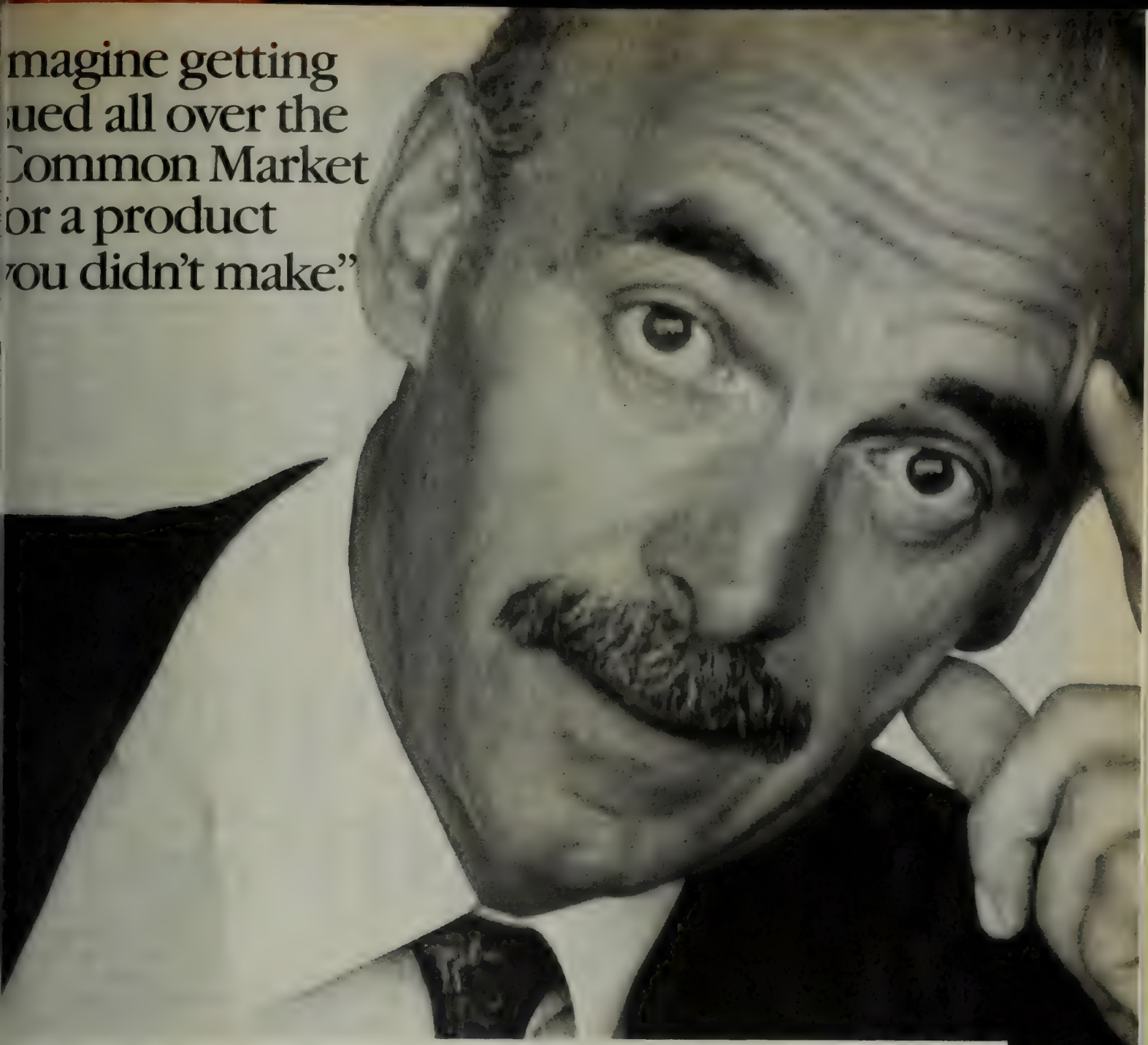
SOMETIMES A CHANGE at the top of a company also means a change in direction for the company. Such seems to be the case at Miami's Knight-Ridder Inc., the nation's second-largest newspaper chain (1987 revenues, $2 billion). James K. Batten, 52, took over as chief executive officer in April. Three months later he spent nearly $500 million on two acquisitions far afield from Knight-Ridder's basic business—a slice of a cable company and an electronic information system.

This is quite a departure for Knight-Ridder, which has, as a matter of policy, stayed pretty close to its original business. It owns 30 dailies, including the *Philadelphia Inquirer*, *Miami Herald* and *San Jose Mercury News*. Many of them are prestigious papers, together having won an unprecedented 22 Pulitzer Prizes in the last four years. Unlike such other media giants as Gannett Co., Times Mirror Co. and Tribune Co., however, which have ventured afield into billboard advertising, radio and even professional baseball (Tribune owns the Chicago Cubs), Knight-Ridder hasn't done much diversification.

Knight-Ridder did go into television, but with little success. Nor has it earned the kind of profits and growth competitors have. Its return on equity and its growth in both earnings per share and sales have ranked well below the industry average. Its net profit margins, for example, fell to 7.5% last year, versus an industry average of 9.2%. The company's leading moneymaker is the *Philadelphia Inquirer*, which has operating profits around 15%, compared with 20% to 25% at comparable major dailies.

Under Batten's predecessor, Alvah Chapman Jr., who spent 12 years as the company's chief executive and remains as chairman, a number of miscalculations were made. In 1984, for instance, Knight-Ridder's *Detroit Free Press* launched a campaign to bury the *Detroit News*. But Chapman grossly underestimated the *News'* staying power. The *Free Press* has lost $59 million since early 1984 and has declared itself a "failing newspaper" in order to qualify for a joint operating agreement with the *News*, now owned by Gannett. Without an agreement, Knight-Ridder says it will close the 102-year-old *Free Press*, a humiliating defeat for a company that prides itself on its commitment to its newspapers.

The *Miami Herald* also made business mistakes. In the 1970s the *Herald*



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Gerald Davis Contact

Knight-Ridder Chairman Alvah Chapman Jr. (left) *and Chief Executive James K. Batten*
Trying to prove good newspapers and high profits are not incompatible.

was indifferent to the circulation and revenue potential of Broward and Palm Beach, fast-growing counties north of *Herald*-dominated Dade County. This gave competitors a window of opportunity. The Fort Lauderdale *News* and *Sun-Sentinel*, owned by Chicago's Tribune Co., sell nearly twice as many daily papers in Broward and Palm Beach counties as the *Herald*. For a while, the *Herald* lost touch with Miami's burgeoning Hispanic population. The result: Dade County circulation has risen a scant 1% since 1970, while the population grew 45%. *Herald* profits, which sank from $59 million in 1984 to an estimated $53 million last year, are expected to drop another 25% to 30% this year.

Knight-Ridder did expand into television, buying its first stations in 1978, but most of its eight stations are only number two or three in their markets. Operating profit of the division was only $14.5 million in 1987, down 34%.

Batten would like to make up for lost time. He is seeking newspaper acquisitions, specifically those with circulation between 40,000 and 200,000. With annual net cash flow of more than $200 million, Knight-Ridder certainly has the means to buy, though no deals are imminent. But by now the prices, running as high as 25 to 30 times annual earnings for prime papers, take courage to swallow. It's doubtful that Batten can find bargains.

Meanwhile, the company is trying to improve profitability at its existing newspapers, which account for more than 85% of the company's revenues and profits. There Batten is assisted by P. Anthony (Tony) Ridder, the tough-talking and intense 47-year-old great-grandson of the Ridder chain's founder. Ridder has been president of Knight-Ridder's newspaper division since 1986 and his family owns more than 5% of the stock.

Ridder has made some progress. Astonishingly, many of the papers had no strategic plans or performance goals; Ridder has installed them. Nearly one-third of the papers have new publishers. In Miami, the *Herald* is wooing Hispanics with an improved Spanish-language supplement called *El Nuevo Herald*, unveiled last November. The paper has also adjusted rates and offered discounts to boost its sagging classified advertising linage. In Philadelphia the production department was overhauled to solve a recurrent problem with late delivery. At other papers, new marketing ideas like zoned editions have been added.

The *Detroit Free Press* will live or die depending on whether the Justice Department approves the joint operating agreement ruling, which is expected soon. If approved, the *Free Press*, by most estimates, would make about $20 million a year. If the agreement is rejected, Knight-Ridder will close the *Free Press* and stop losing $1.5 million a month there. Batten has hinted that if the ruling is delayed by the resignation of Attorney General Edwin Meese, Knight-Ridder may simply shut down the paper and end the bleeding.

Many other problems remain, such as labor strife at the *Philadelphia Inquirer* and its sister publication, the *Philadelphia Daily News* (six strikes in ten years), and low margins even in such monopoly markets as Gary and Akron. "Some of these papers were, and still are, operating sloppily in terms of productivity and cost control," admits Ridder.

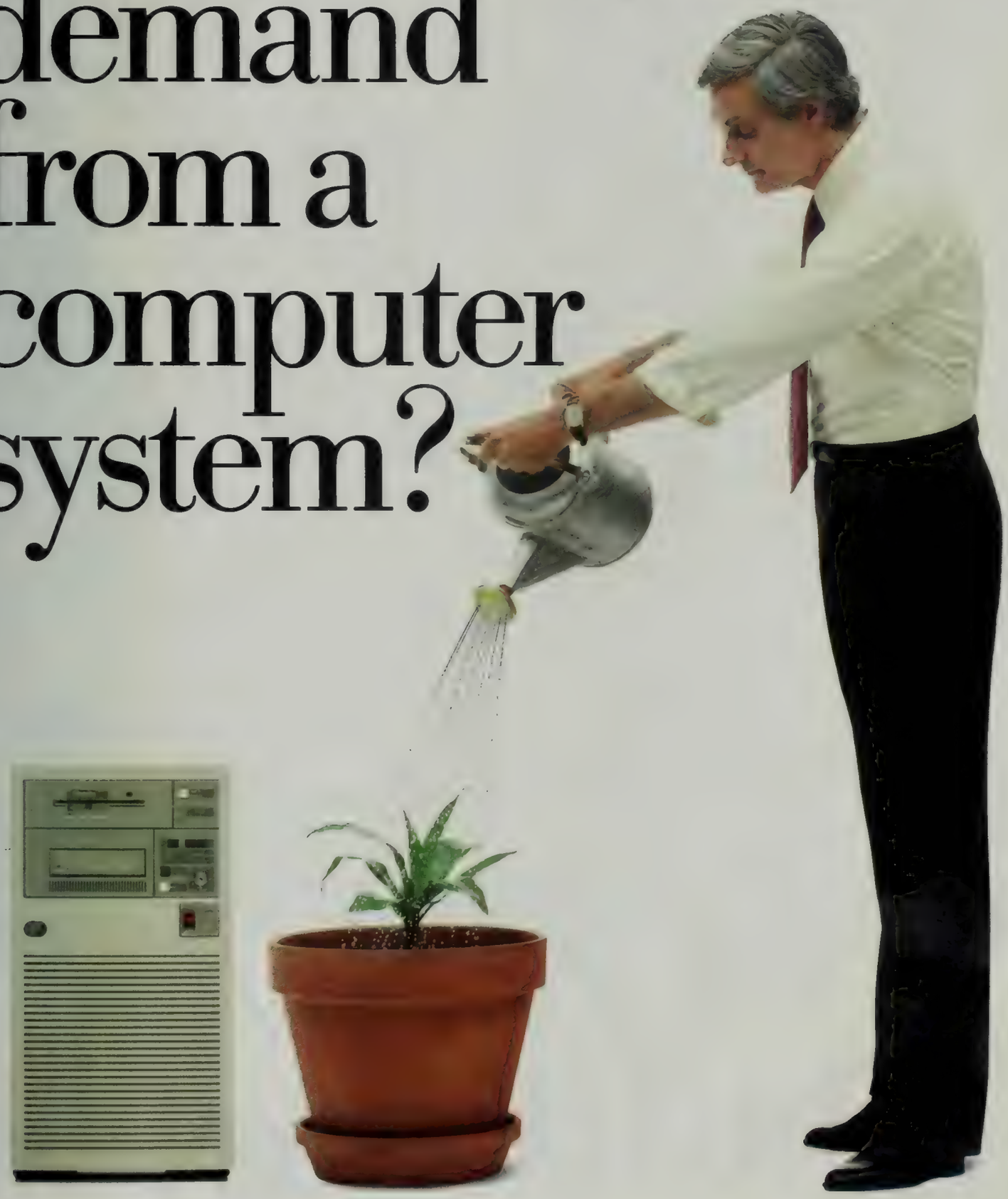
Batten and Ridder must face the fact that newspapering as such is probably a slow-growth business. Hence the acquisitions. "We have decided to invest more heavily in cable and business information systems, which are growing faster than newspapers," Batten says. In early July Batten announced that Knight-Ridder would acquire a 7.5% stake in SCI Holdings Inc., parent to 1.5-million-subscriber Storer Cable. Then, five days later, Batten agreed to buy Dialog Information Services Inc., the world's largest electronic information system, from Lockheed Corp. for $353 million.

To finance these glamorous acquisitions, Knight-Ridder will take on more than $350 million in debt, interest on which exceeds the earnings from the acquired properties. That, in part, is the price the company pays for not having gotten into some of these businesses more heavily earlier. Knight-Ridder earnings were up slightly in the first half, but the improvement was caused by a tax change and stock buyback, rather than by an improvement in operations.

Because of the added debt, Knight-Ridder's earnings projections have been reduced by about 10% for 1989. Batten, sanguine, says he's buying revenue and earnings growth—about 20% compounded annually over five years at Dialog. But many analysts feel Knight-Ridder, at 14 times projected 1987 earnings of $2.95, is overpriced. Knight-Ridder is considering selling some or all of its television stations to reduce debt and raise cash for newspaper acquisitions.

"We are predominantly a newspaper company and always will be," says Batten. But Tony Ridder adds an amendment to that longtime company policy statement: "High profits and good newspapering are not incompatible." ■

What should every company demand from a computer system?



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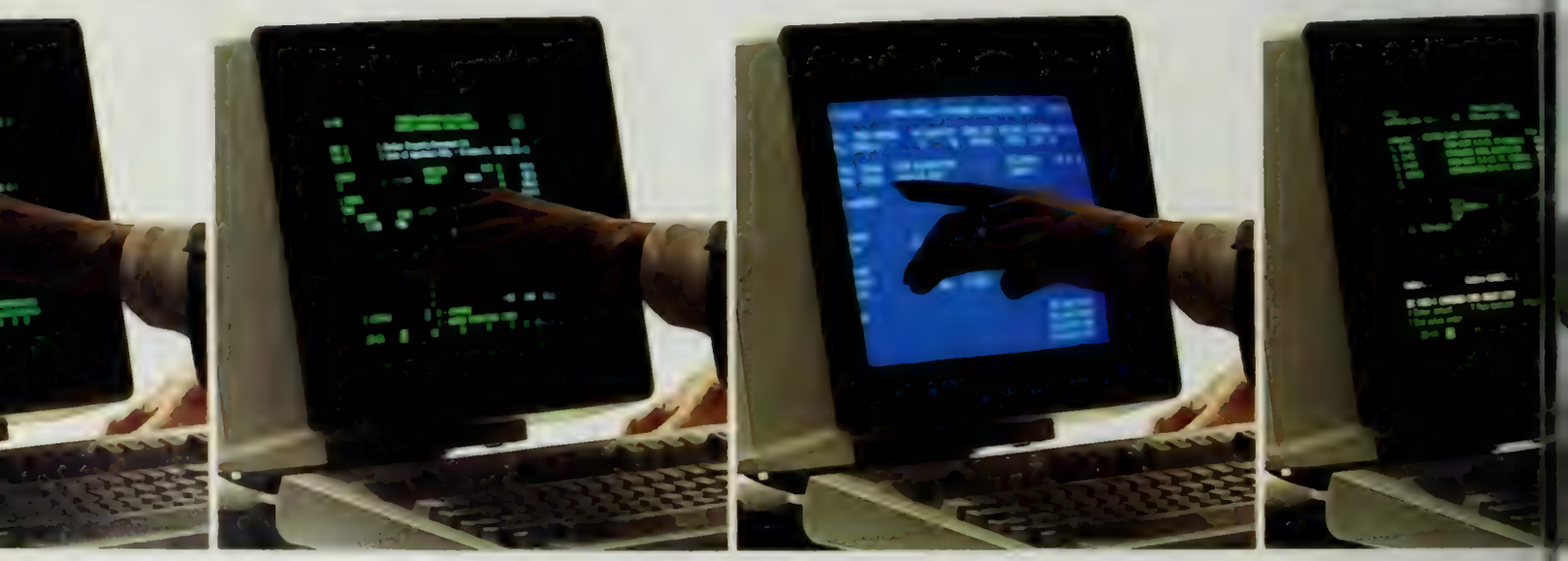

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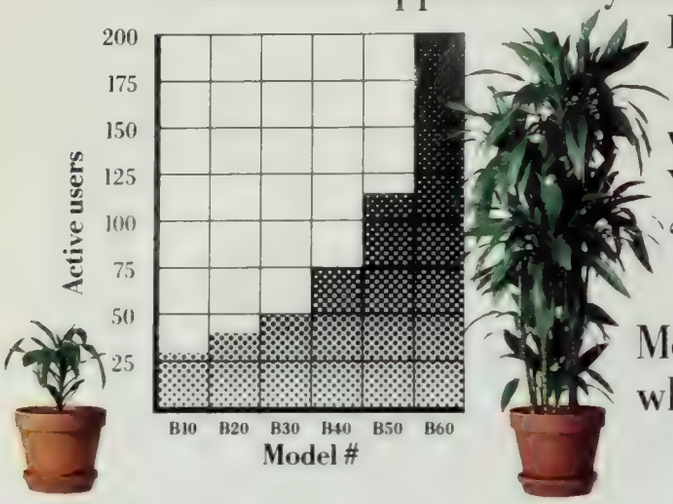

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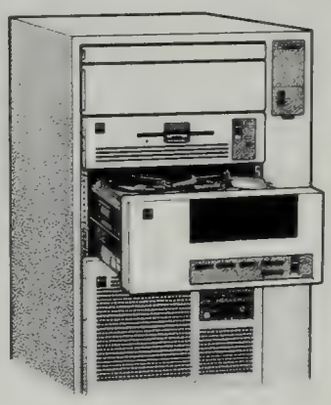

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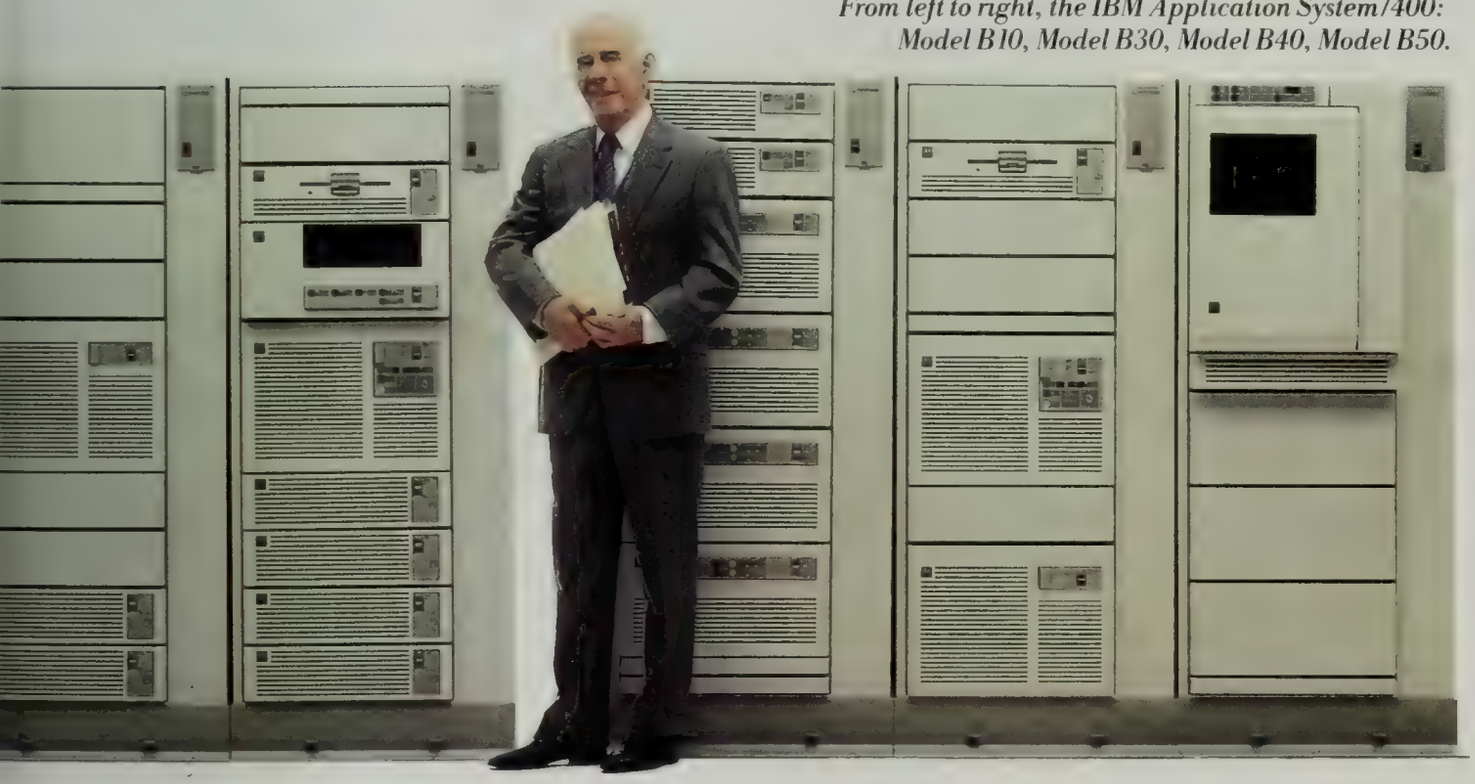

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IBM The Bigger Picture

Pacific Resources got into oil refining to supply its utility operations. That strategy has paid off handsomely.

A nice little sideline

By Marc Beauchamp

A 30-YEAR VETERAN of the rough-and-tumble world of oil refining and marketing, Robert Reed III moved to Hawaii in 1985 to take over as chief executive of Pacific Resources, Inc. It seemed a dream job for a 60-year-old. Reed usually wears an aloha shirt and loafers to work. His spacious office commands a view stretching from Diamond Head to Pearl Harbor. He can work on his tan while sailing his 49-foot ketch, moored a mile away across Honolulu Harbor.

But the job of running the $955 million (1987 revenues) Honolulu-based oil refiner and gas utility has been no sinecure. Founded in 1904 as the Honolulu Gas Co., a public utility, Pacific Resources complicated its existence in 1972 when it built its own petroleum refinery. What was a utility doing in oil? Assuring itself a dependable and economic supply of feedstock for its synthetic natural gas plant in the days of shortage that lay ahead. But running an oil refinery called for special talents that most utility executives lack. Thus did Pacific's board turn to Reed. He had wide experience, having held executive and marketing posts at Tidewater Oil, Cities Service Oil and Tesoro Petroleum before becoming chairman of Milwaukee-based Clark Oil & Refining in 1979.

Hawaii sits in the middle of the fast-growing Pacific Basin, where there's less surplus refining capacity than around the Atlantic. Pacific supplies about half the gasoline used in the state and more than half the commercial jet fuel used by international carriers refueling there. From its refinery, in a foreign trade zone 22 miles west of Honolulu, it sells gasoline and oil products from Tokyo to Tonga, from Singapore to American Samoa. Gasco, the public utility, sells synthetic natural gas to more than 78,000 customers throughout the state. These days the utility accounts for only 10% of PRI's revenues.

Dennis Oda

Pacific Resources' Robert Reed III
Doing too good a job?

Reed brought in a new, professional team of crude-oil buyers. He turned from contract oil purchases to the spot market, an especially shrewd strategy in 1986, when crude prices plunged, and PRI posted record profits of $27.8 million. He has sought good counsel: Where there were no oilmen on PRI's board, there are now four—Reed; refinery chief Charles Dunlap, who worked with Reed at Clark Oil; Robert McCowan, vice chairman of the board of Ashland Oil; and Silvan Robinson, former president of Shell International Trading Co.

Reed has spent $45 million upgrading the company's 80,000-barrel-a-day refinery, one of only two in the state. The aim is to squeeze more gasoline, diesel and kerosene from crude.

Rather than wholesale most of its gasoline on the West Coast, as Pacific inexplicably did in the past, Reed has focused on the more lucrative Hawaiian market. He has built a chain of 16 company-owned, self-service gas stations, with more to come.

Meanwhile, he's developing new markets, selling marine fuel to cruise ships and Japanese fishing vessels, for example. And he's courting business from transpacific cargo ships. Says James Lawrence, marketing vice president: "We're letting people in the [shipping] industry know that Honolulu is out here."

Reed's major goal is to double assets, revenues and profits within five years. How? By building a petrochemical plant with a domestic or foreign partner. Reed says several unnamed companies and countries are "very much interested." He adds: "We have a transport advantage over the U.S. mainland refineries. We're 2,500 miles closer to Asian markets."

As a result, shrewd oil analysts like C.J. Lawrence's Charles Maxwell are recommending the stock, recently 12¾, around eight times estimated 1988 per-share earnings. For the first quarter PRI's operating earnings rose 70% from the year before. Moreover, Pacific Resources could conceivably be a takeover candidate. An OPEC country in search of downstream integration in a growing market could be interested. Or maybe the Japanese, who are snapping up Hawaiian real estate (FORBES, *Feb. 22*). (Mitsubishi owned a 6% stake in the company before it sold out a year and a half ago.) PRI's refinery is on the books for $150 million, about one-third what it would cost to build today—even if permits could be had.

One tall hurdle for any raider: Alexander & Baldwin, the $645 million (revenues) Honolulu-based conglomerate, owns 36% of Pacific Resources' 17 million shares. A&B Chairman Robert Pfeiffer says: "My standard answer is our block is not for sale. But if someone came with an appropriate offer, we'd look at it." ■

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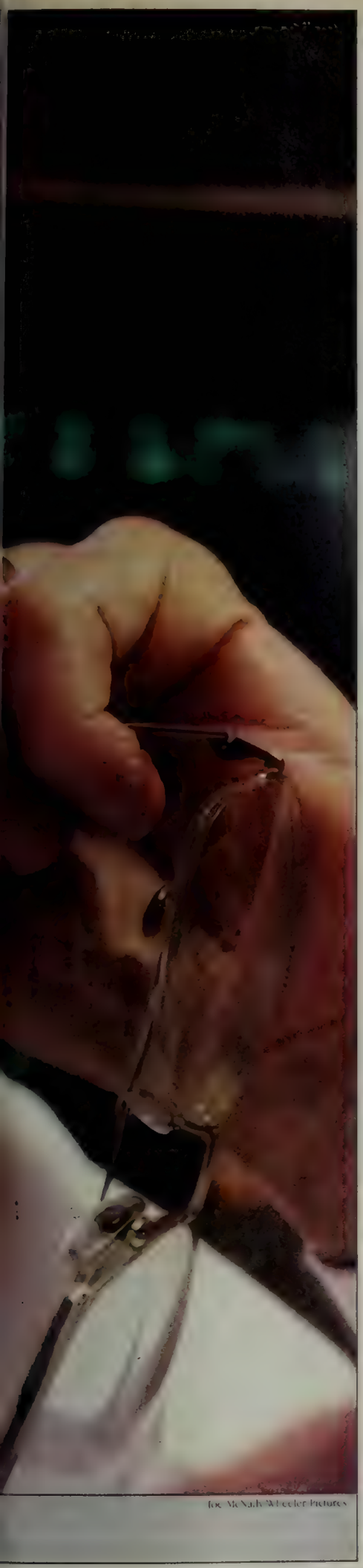
CBS Inc. President and Chief Executive Officer Laurence Tisch
For all his embarrassment, feeling no financial pain.



What are Larry Tisch's plans for CBS' future? What will he do with $3 billion in cash? These and other unanswered questions make CBS look like one of the cheapest stocks on the Big Board. Is it cheap, or does it only seem that way?

Behind all that shuffling and reshuffling at CBS

By Subrata N. Chakravarty

CBS INC. HELD ITS annual closed-door meeting with its television network's affiliate stations at the Century Plaza Hotel in Los Angeles in mid-June. It was not a pleasant session and left Laurence Tisch, CBS' chief executive and, through Loews Corp., its biggest shareholder, rattled. Duane Harm, president of KWTV, CBS' Oklahoma City affiliate, set the tone. He got to his feet and said, as he recalls it: "The network in the past three years has dropped from first place to third in the prime-time ratings. The opinion of our affiliates board is that Mr. Tisch is calling most, if not all, the shots. Well, if that's the case, then we don't have a very good track record while he was calling the shots." He looked right at Tisch: "If this continues, would you consider promoting yourself up to chairman and putting a broadcaster in that position?"

Harm sat down. There was loud applause from the audience of nearly 1,000. Shaken, Tisch revised his luncheon speech to try to calm the affiliates: "I heard your concerns and disappointments loud and clear," he said. "I share your dissatisfactions."

Tisch's apparent response came a month later. In a dramatic mid-July move, Tisch replaced his broadcast group president, Gene F. Jankowski, naming in his place Howard Stringer, a 23-year CBS veteran who had headed the news division. Even more dramatically, he brought in an outsider, David W. Burke, to fill Stringer's vacated post; Burke had been number two in news at the ABC network.

Tisch and the new executives have their work cut out for them. Dismayed by CBS' performance since Tisch took over, the stock market's judgment is clear. Lumping together debt and equity, CBS has a current market capitalization of $4.7 billion. Subtract the cash—net of tax liability—and CBS' market cap is $1.7 bil-

lion. Compare this with rival Capital Cities/ABC, which has a market cap, net of cash, amounting to $6.7 billion.

In revenues, Cap Cities is less than twice as big as CBS, but the market says it is worth almost four times as much. Thus the market gives much higher marks to the Thomas Murphy-Warren Buffett team at Cap Cities than to the Tisch regime at CBS.

Tisch and his network broadcasting team have their hands full. Take the 1987-88 prime-time race. There was never any doubt about who would win—NBC in a walk. But CBS, which had been a respectable second the previous year, sank into third place for the first time in the 37-year history of the Nielsen TV ratings. Later Tisch conceded that his "encouragement" of lower-cost comedies instead of movies gave ABC the edge. With each prime-time rating point being worth $70 million or more in advertising—all of which goes to the bottom line—CBS' 2.3-point drop cost the network over $160 million in pretax profits.

Nor is prime time the only trouble spot. CBS is struggling in virtually every other segment of the broadcast day. All this happens in the context of rocky times for network TV in general; its audience share has dropped from 91% as recently as 1979 to 71% last season. First Boston's broadcast analyst Richard MacDonald estimates the CBS network lost $20 million in 1987 and will lose the same in 1988. (Profits from the four wholly owned TV stations more than offset that loss.)

How did Larry Tisch, a demonstrably astute financier before his involvement in CBS, get into this position? Unlike Warren Buffett, who purchased a stake in superbly managed Cap Cities/ABC, Tisch bought into a company that lacked strong management. In the end, he chose to step in personally.

When CBS came under attack from Ted Turner in 1985, Loews Corp. began buying stock with encouragement from CBS' chairman, Thomas Wyman. Within months Tisch, through Loews, had accumulated nearly 25% of CBS' shares and was invited onto the board.

A year after joining the board, he teamed with CBS founder William Paley to oust Wyman. In September 1986 the aging and ailing Paley was reinstalled as chairman, the position from which Wyman had forced him in 1983, and Tisch became interim president and chief executive.

He had won effective control of one of the nation's premier companies with an investment of just over $700 million—about $125 a share. It was a stunning bargain in that he bought control of a coveted property without paying a premium for control.

Over the years CBS had turned into a multimedia conglomerate. Ted Turner had said he would sell off assets, which so appalled Paley and the CBS board that they fled into Tisch's arms. But ironically, Tisch quickly set about refocusing CBS on broadcasting. Soon gone were the magazines, book publishing, cable, videotex and records. In their place is a mountain of cash—almost $3.4 billion at first quarter's end—a pile that is over 80% of the recent price of CBS stock, 157½ a share. "CBS is no longer an entertainment company, but rather a closed-end money market mutual fund," First Boston's MacDonald concluded in a recent report.

Tisch also turned his attention to network waste and extravagance. He cut hundreds of jobs. Some 800 more employees were offered early retirement recently.

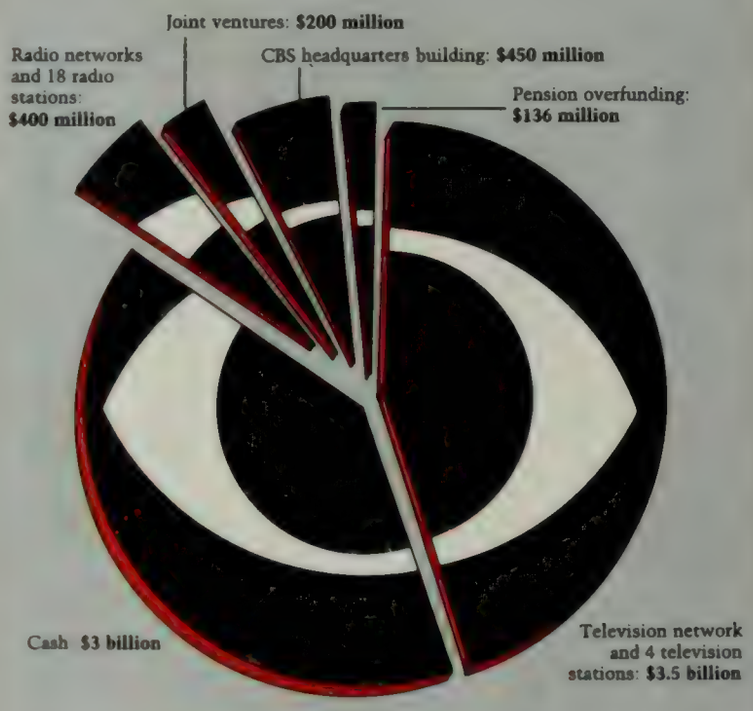
CBS was not the only network given this cost-cutting treatment: Capital Cities cut as deeply at ABC. But Tisch's cuts took place at the same time that CBS was losing relative position among the three networks. Whether the cuts were done clumsily or whether Tisch's luck was bad, it was and is easy to blame the slump on Tisch's cost-cutting.

Nor can Tisch escape responsibility for CBS' fall from grace. In all of Loews' other businesses—cigarettes, hotels, insurance, watches and shipping—Tisch has been content to be the strategist, leaving day-to-day operations to executives specialized in the businesses. But at CBS he has been very much the hands-on executive. When Wyman was ousted, the board's search committee was apparently unable to find a replacement. In January 1987 Tisch was formally appointed chief executive. Thus, however he shuffles executives, Tisch is clearly the man in charge.

The network aside, Tisch comes in for criticism by failing to diversify CBS so it can grow at a time when network television is clearly shrinking. He sold off CBS Records, the world's largest record company, just when the compact disc revolution is gathering steam. Within the TV business, ABC is already heavily committed to cable programming through its investments in ESPN, the sports network, as well as Lifetime and Arts & Entertainment. NBC has been trying to find a way to expand its cable interest for years and is now leasing the

Eye surgery

CBS values its net fixed assets at under $350 million. Many believe the values below are more like it.



Add cash and pension overfunding, deduct debt of $600 million and you get almost $7.1 billion, or $268 per share—not including the real estate value of CBS' studios.

Sources: Asset Analysis Focus; FORBES estimates.

Tempo channel from TCI. But at CBS Tisch sold off interests in Rainbow Services, a cable programming venture, and four regional SportsChannel networks. Tisch told the press that CBS' purpose is not to join cable but to fight it. He has shut CBS out of all nonbroadcast programming alternatives except its joint venture with Fox in prerecorded videocassettes.

Don't be misled by the strong earnings gains CBS recently reported for the first half of 1988—$6.74 a share from continuing operations, as against $3.15 last year. These gains were almost entirely a result of high net interest income—produced by the cash heap piled up in Tisch's massive selloff of assets.

All this criticism has clearly shaken Larry Tisch. After cultivating an image for himself as a public-spirited nice guy, he was shocked at the vicious personal criticism his sharp cutbacks at CBS aroused.

Faced with the challenge of his thus far eminently successful career, Tisch must respond. But how? His strategy and that of his new top broadcasting team—if such a strategy exists—is a big question mark.

Another big question mark: What will Tisch do with the cash heaped up from his divestitures? There it sits, $127 a share worth, earning interest but not contributing to building the network or the company.

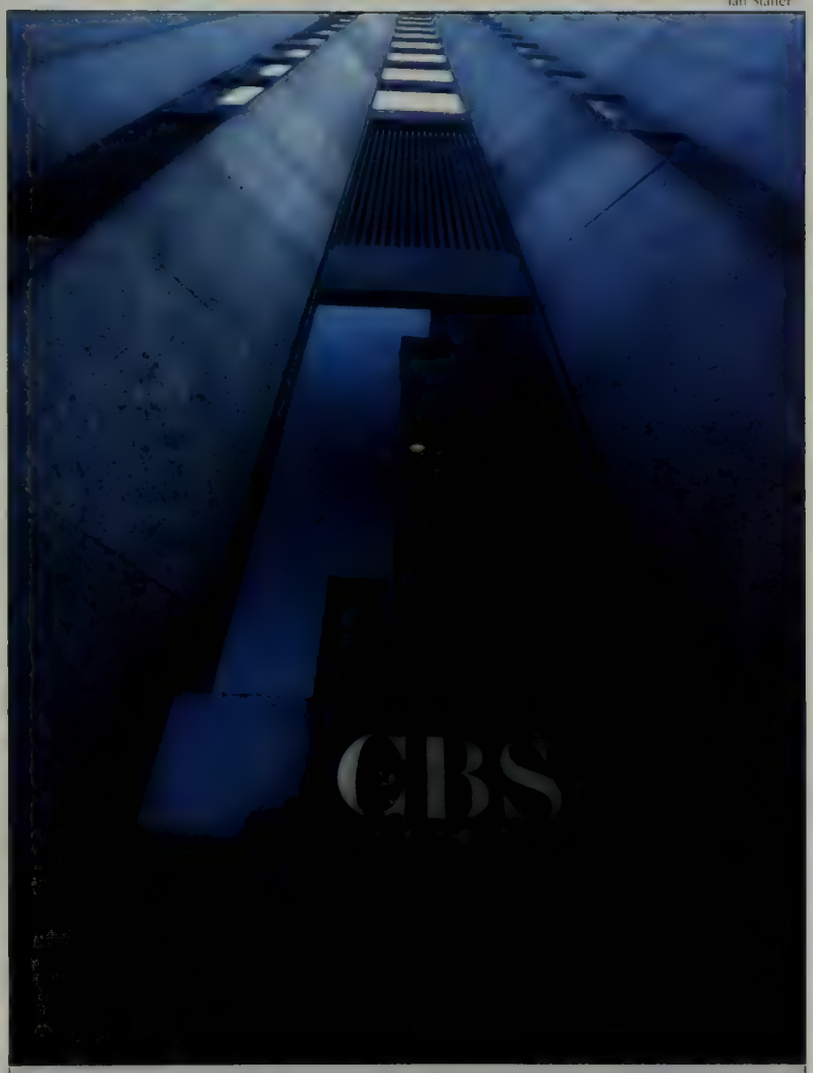
Asked at a press conference about his plans for the cash, Tisch verbally shrugged. "It doesn't burn a hole in our pocket. I'm very happy to let it sit. It earns money every day."

Tisch may be comfortable letting the cash sit, but the stock market has not reacted well to CBS' new role as a money market mutual fund. At the recent price of 157½, the market is valuing the noncash part of CBS at a paltry $30 a share—about $725 million. This is almost ludicrous, considering that CBS' four owned and operated TV stations alone are worth almost three times that.

For all of CBS' present woes, the company has enormous, and undervalued, assets. Elizabeth Trudell, analyst at Mark Boyar & Co., for example, estimates that CBS stock is worth at least $250 a share on a fully diluted basis. Even that valuation, she says, is conservative. It ascribes no real estate premium to CBS' extremely valuable studio facilities in New York, Los Angeles and ten other cities. Nor does it include the value of CBS' headquarters building. The Eero Saarinen-designed Black Rock, in the heart of Manhattan, is one of New York's most elegant office buildings, and Trudell independently values it at up to $20 a share, or around $450 million. The real estate could be sold, and whatever is needed could be leased back. In short, CBS is worth close to $270 a share before hefty capital gains taxes on any assets sold. With good management and better performance, it might be worth even more.

Yet for all the bad publicity the CBS mess is bringing to Tisch, he is feeling no financial pain. Even in its shrunken state CBS, estimates MacDonald, is throwing off an annual cash flow of $420 million pretax, $18 a share. This is a nice return on the $125 a share Loews paid—and, being a 25% holder, Loews can recognize equity earnings on its books. For Tisch, all that cash is a security blanket. He has made no secret of his pessimism about the economy and his expectation of a crash. If he is correct, all that cash will come in handy one day soon. With it he could buy other companies at bargain prices. Or he could tender for the 75% of CBS stock that Loews does not own—and fold the company into Loews.

Ian Staller



CBS' corporate headquarters in New York
For all its woes, enormous—and undervalued—assets.

To think that Tisch might tender for the public stock is not uneducated speculation. In several previous cases, like CNA Financial, Loews initially bought a chunk of stock and then tendered for the rest some time later. Certainly the great broadcasting company would be an ornament in Loews' portfolio. True, a tender would trigger the Federal Communications Commission's licensing and cross-ownership rules and require a time-consuming investigation into Tisch and Loews. But Tisch has little to fear from such an investigation and the inconvenience would be a small addition to the price. As part of Loews, CBS would have the diversification it presently lacks.

The broadcast business is notorious for its ups and downs. Both NBC and ABC have risen from third place to first in the past. CBS could also do so. If so, the price of the stock would certainly move up sharply to reflect the better performance.

In short, Larry Tisch has plenty of options as well as the lasting power to take his time about exercising them. Any way you slice it, Larry Tisch can't lose.

What about the other shareholders? What about those who buy this apparently undervalued stock at the recent 157½? Are they getting a bargain? The answers depend on Larry Tisch's intentions and on his timetable—and these are presently unknowable. On the sheer numbers, however, CBS is a very cheap stock. ■

A government bureaucracy is learning to think as arbitragers do—and a good thing.

The FDIC's learning curve

By Allan Sloan

IT ISN'T OFTEN that a federal government bureaucracy gets better at anything except making people's lives more complicated. But then there's the Federal Deposit Insurance Corp.

The FDIC, unlike other bureaucracies, has learned from experience, and it is becoming almost as clever as the arbitragers who picked its pockets on several occasions. Some of the arbs hope that the imminent rescue of stricken First RepublicBank Corp. of Dallas will provide another payday. The result: a fascinating battle pitting a government agency against bondholders and arbs—with the agency actually having a chance of winning.

The FDIC is trying to bail out the depositors of First Republic's banks while leaving little or nothing for First Republic's noteholders and stockholders. "The FDIC's task is to protect bank depositors, not bank owners," says Alan Whitney, an FDIC spokesman. In the past, however, in good part as a result of its own naiveté, the FDIC has found itself bailing out investors and speculators as well as depositors.

The FDIC has been learning steadily since its 1984 bailout of Continental Illinois Bank, in which it inadvertently bailed out Continental Illinois Corp.'s creditors and preferred shareholders, costing itself about $1 billion in the process (FORBES, *July 2, 1984*). William Isaac, FDIC chairman at the time, has said he didn't want to bail out the holding company, but felt he had no choice.

Round two came earlier this year, with the recapitalization of Houston-based First City Bancorp. Obviously, FDIC Chairman L. William Seidman would have preferred to close all of First City's 59 banks and leave nothing for the holders of First City's $225.8 million of bonds and notes. But some of First City's banks were solvent, and regulators, by law, couldn't close them.

A. Robert Abboud, chosen by the FDIC to run the recapitalized institution, offered a package of cash and debt assumptions worth $104 million to placate the holders. That money, of course, effectively came from the FDIC. Had Abboud not needed to buy out the bondholders, he would have had $104 million more to put into the recapitalized institution—and the FDIC would have been able to pay $104 million less. Who gained? Chiefly a bunch of Wall Street speculators who shrewdly bought up the busted bonds. Abboud had to sweeten the package to the tune of $25 million.

First City's bond- and noteholders as a group got only about 57 cents on the dollar. Much better, from the FDIC's point of view, than the 100 cents on the dollar that creditors of Continental Illinois Corp. got.

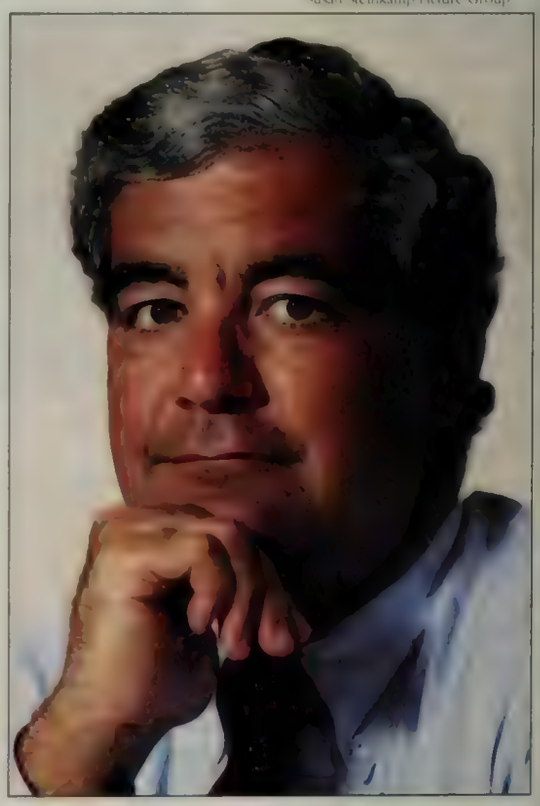
Which brings us to First Republic. Like First City, First Republic has solvent banks, even though the company as a whole is under water. But the FDIC is well along on the learning curve. This time, the FDIC took solvent banks as collateral for a $1 billion loan to stave off a run on deposits. The FDIC has also apparently gotten the company to merge some of its solvent banks into insolvent banks so that the resulting banks are insolvent—further strengthening its hand against securities holders.

Some First Republic bondholders are understandably suing on the grounds that they, rather than the FDIC, should have first claim on the solvent banks. Perhaps they will win, perhaps not. But at the very least, the FDIC is showing arbitragers that it's no longer easy prey. ■

Jeffrey MacMillan

FDIC Chairman L. William Seidman
Learning from . . .

Susan Steinkamp/Picture Group



Former Chairman William Isaac
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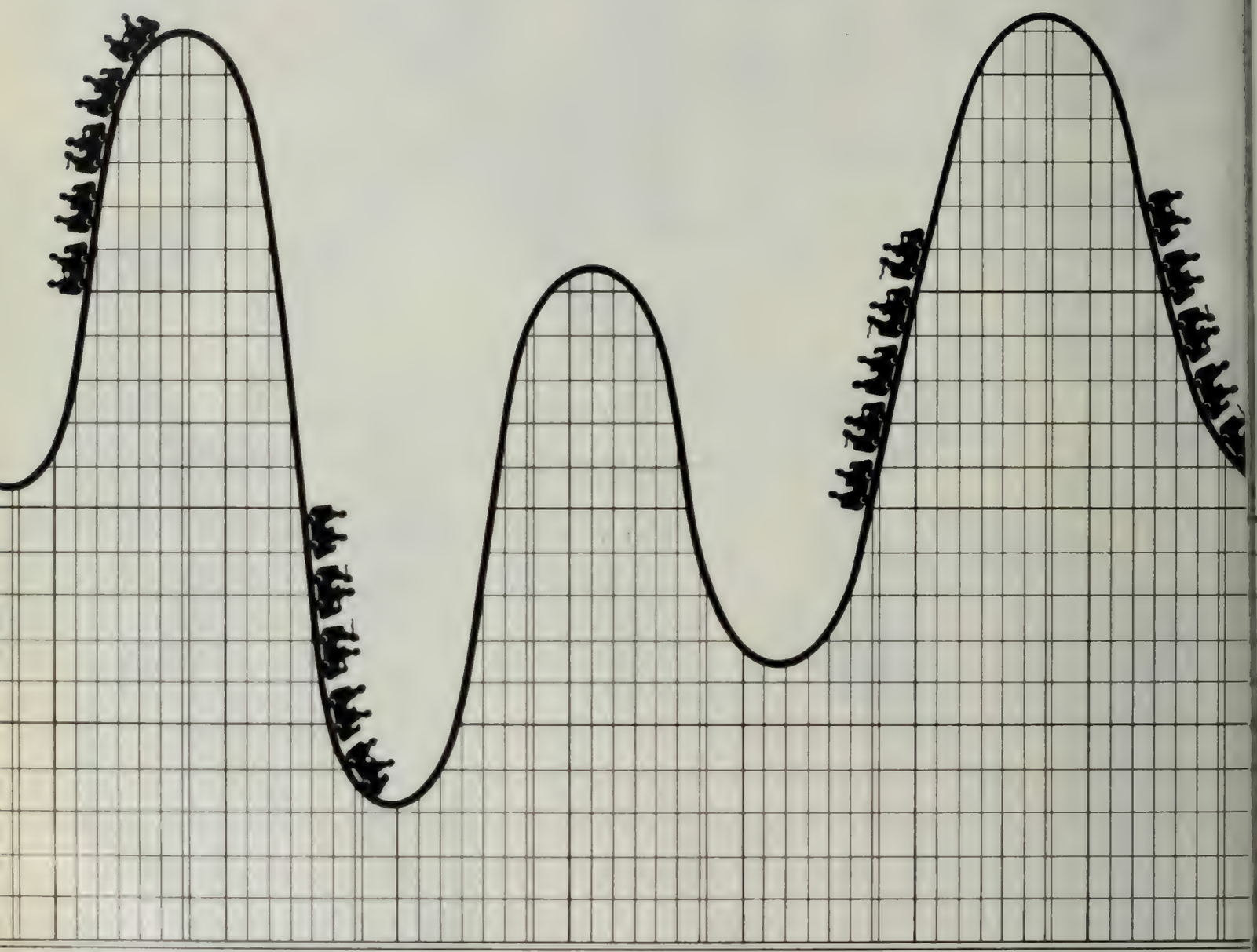

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Heavy with Japanese tourists, airlines with Tokyo routes are booming. With such a rich route, can fare-cutting be far away?

That convenient bottleneck at Narita

By Richard Phalon

JAPAN AIR LINES' recent order for 15 of Boeing's jumbo 747-400s is one more sign of how much more crowded the skies over the rich transpacific routes are becoming. This could be bad news for the airlines, which are currently reaping rich returns on these increasingly busy routes.

The new-generation 747s carry about 400 passengers—half again as many as the configurations now in service on the all-important New York-Tokyo run. Northwest is scheduled to take delivery on the first of these behemoths toward the end of this year—a period when seasonal traffic patterns generally turn soft.

At the moment, it's all blue skies over the Pacific. But there may be just a bit too much euphoria in the mix. JAL's load factors, like those of its major U.S. competitors—Northwest and United—have benefited handsomely from the rising tide of yen-heavy Japanese tourism. Economists talk confidently about double-digit growth in Pacific Basin passenger loads rolling right on out to the turn of the century

Wall Street has responded by pushing the stocks of airlines with Pacific routes well ahead of the market. Few traders are willing to concede the obvious: that a dogfight for market share has already begun on routes that have a major impact on the bottom line of Northwest and United. As Delta's Fred Hopmeier puts it, "When you see explosive double-digit growth, you might expect to see more capacity."

Which is precisely what is happening. Thus, JAL has been flanked at home by formidable new competition from All Nippon Airways (ANA), formerly confined by administrative fiat to operation on Japan's domestic routes. On the U.S. side, Delta and American have been loosed on the market, with a still comparatively limited number of flights to Tokyo and beyond, but aiming for more.

Business travel is the base on which all the carriers are trying to build, but the big growth has been in tourism. The Japanese flock abroad to see the sights and shop for what seem to them bargains. American carriers have been extremely successful in weaning the Japanese and other Asians from their dependence on national carriers like JAL.

Some of that success has come by default. JAL alone simply cannot mount the economy-class capacity it takes to handle the record 8-million-plus Japanese expected to file this year through the high-security, razor-wire enclosures of Narita International Airport to such exotic destinations as Hong Kong or Honolulu.

"We've been able to break down a lot of the nationalism," says Allan Pray, Northwest executive vice president. Some of the breaking down has been via price competition. Even with the heavy yen in hand, the Japanese are very price conscious. Most of the shopping for non-JAL seats is done by an army of some 600 registered travel agents. Discounting and deals are all part of the business.

To compete in this market, U.S. carriers are doing what the Japanese have done for years—paying to build market share. Northwest, for example, last year paid out a total of $717 million in commissions—50% more than the year before. This cuts into profits, of course. "Gross passenger yields are up," says Pray. "Net yields are down."

Japan's Ministry of Transportation wants to hold the fare line to shield the recently privatized JAL (and the newly liberated ANA). The bureaucratic formula: competition, yes; but not too much of it.

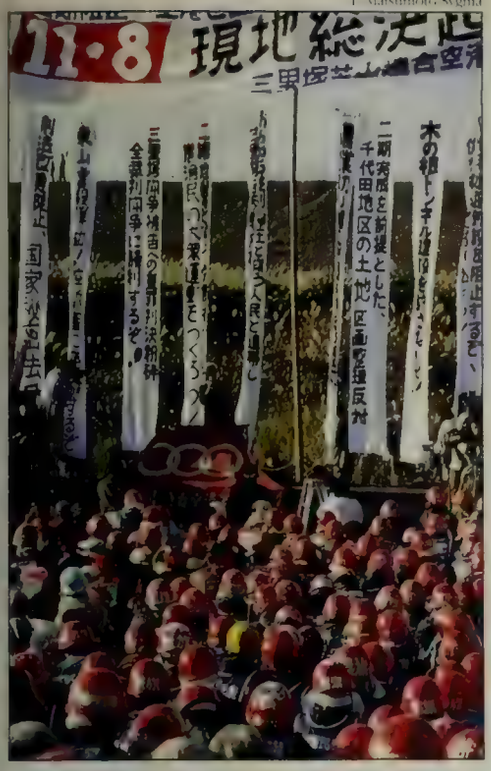
That ambiguity is reflected in the marketplace. For example, you can now buy an economy-class New

G. V. Fuentes/Image Bank

Narita arrivals wing

A nice place to visit, but no place to buy tickets.

T. Matsumoto-Sygma



Narita protest
New runways cost a lot of cabbage.

York to Hong Kong return ticket with stopovers in Tokyo for $1,249. A New York to Tokyo return alone, however, costs $1,329—or $80 more.

Compared with the rampant confusion that reigns in U.S. domestic fares, the transpacific price-shaving is still fairly polite. But with their growing sophistication, Japanese travelers are beginning to learn that it is invariably cheaper to fly anywhere in the world from Hong Kong than from Tokyo. You can expect pressures to mount for cheaper fares from Tokyo.

The ultimate bureaucratic line of defense against fare-cutting is fortress Narita itself, now operating at peak capacity on one runway, and the scene of numerous radical antiexpansion demonstrations.

The Japanese government has moved very slowly in trying to extricate a group of farmers whose sweet potato fields lie athwart the path of a second runway that would open the skies to heavier competition. The Japanese are now looking to 1992 for completion of the runway—by which time, presumably, demand will have grown to the point where the added flights won't cause any glut of seats.

Though the Japanese deny it, suspicious folks wonder whether the foot-dragging, the tender concern for a few farmers, doesn't have an ulterior purpose. With capacity growing fast, the supply of seats is already starting to exceed demand. Says Northwest's Pray: "As we go into the soft months of this year, you won't have trouble finding a seat to Tokyo." ■

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Rich Saudi princes abound, but how many made their fortunes on their own steam? Meet Alwaleed Bin Talal Bin Abdulaziz Al Saud, self-made billionaire—at age 33.

"I'm not finished yet"

By William P. Barrett

SAUDI ARABIA'S Alwaleed Bin Talal Bin Abdulaziz Al Saud is just one of 4,000 princes and princesses all related to his grandfather, Abdulaziz Ibn Saud, the country's remarkably prolific (more than 60 children) founder and first king.

But even within this sprawling clan, Prince Alwaleed stands out. His personal net worth is at least $1 billion, probably among the dozen richest in the royal family. And, at 33, he has made all of his in business.

Alwaleed is chairman of Kingdom Establishment for Trading & Contracting, a holding company he started in 1979 in Riyadh, the Saudi capital. Since then, he says, Kingdom has produced about $6 billion in revenues through a variety of enterprises including construction, building maintenance, travel, finance and real estate.

"I keep changing my strategy," says the slim, mustached, U.S.-educated entrepreneur, sitting in a Riyadh office. "I'm not finished yet."

The Saudi royal family is notoriously closemouthed. Alwaleed, however, actually approached FORBES, figuring that being better known in the West would help him do deals there. Was he exaggerating his wealth and prowess for publicity? FORBES thinks not. European bankers vouched for his cash flow, wealth—most of it now cash—and character, while other Saudi business men corroborated much of his account.

Some of the lessons of Alwaleed's success are surprisingly universal. To establish himself in construction, he initially and purposefully bid on jobs at break-even, or lower, prices. He diversified, then spotted and exploited various niches in the construction and real estate industries. He kept his overhead very low; Kingdom Establishment has only 33 permanent employees and Alwaleed personally approves all checks.

To be sure, his princely status helped immensely, and his fortune developed in a country without income taxes during one of history's greatest transfers of wealth, the post-1973 oil price explosion.

Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud
His Riyadh home has 130 rooms, 30 bathrooms.

But Alwaleed clearly is an unusual fellow. In a culture famous for ambiguity and generalities, he answers questions bluntly. In a climate that encourages a rather slow pace of life, he races among his various offices in Riyadh, a sort of one-man band. A news junkie, he often tunes in several shortwave radios to hear foreign newscasts while watching local television and leafing through Western publications. "I wish," he sighs, "that we could get Cable News Network here."

Born in 1954 and raised in Beirut and Riyadh, Alwaleed was bitten early by the business bug. He zoomed through California's Menlo College in three years, gaining a business administration degree in 1979. "I knew the boom wouldn't last, so I was in a hurry to get back," he says.

He returned to a kingdom still awash in oil bucks. His grubstake, he says, was a house and $15,000 cash from his father, Prince Talal Bin Abdulaziz—himself a wealthy building magnate and half-brother of King Fahd Bin Abdulaziz. Deciding to enter construction ("I knew something about it, and I didn't have the money to get into real estate"), Alwaleed hired two employees and began looking for subcontracting jobs.

He ran through the $15,000 in two months. His father refused him more money, he says, and Citibank turned him down for a loan until he posted his home as collateral.

After scratching around some more, Alwaleed got his break in 1980. He formed a joint venture with an ailing Korean contractor and a small Saudi company to bid on a $16 million project for a military academy. "I needed to establish myself, to become known as a player, so we put in a bid with no profit for ourselves," he says—and got it.

And, in a most unprincely way, he hustled for business. The result was his second contract, a $70 million project at a new airport—this one with the normal 15% profit margin. "I went out and knocked on doors," he says. "People were astonished to see a prince pitching for business."

In any case, Kingdom Establishment took off in the early 1980s, using a variety of subcontractors and partners, which often gave it a piece of several bids for the same contract. Alwaleed says his revenues in 1981 alone were about $1.5 billion. "It was still boom times here," he says. He also set up a travel agency subsidiary to service the thousands of Pakistani and Korean workers flying in to work on his projects. Then, realizing that the construction boom could not last, Alwaleed found another niche—maintaining and operating existing buildings. "Saudi Arabia spends $5 billion a year in this," he says.

By 1983, with dropping oil prices drying up new projects, Alwaleed had

amassed cash assets of around $450 million. Using this cash as his base, he started providing letters of guarantee to companies unable to get skittish banks to issue the bid and performance bonds necessary to compete for contracts. "I knew who was good and who wasn't," Alwaleed says. "There was never a default."

Moving into real estate, he began buying land, primarily in Riyadh, at fire-sale prices from Saudis who were in trouble from the collapse of oil. He even set up a small business converting Mercedes-Benz trucks into $1 million recreational vehicles for well-heeled Saudis wanting to roar around in the desert for some heavy-duty falconing. And during all of this he earned a master's degree in social sciences from New York State's Syracuse University in a program that required just a few weeks a year of residence. Professors recall him as one of their best students.

With the Saudi construction business withering, Alwaleed's latest venture is banking. In April he and a group of investors took control of one of the kingdom's worst-performing banks, the United Saudi Commercial Bank (assets, $1 billion). The 13-branch institution has lost 20% of its capital during its five years of existence and has a Texas-like heap of nonperforming loans. Installing himself as chairman, Alwaleed hired a former Citibank executive as general manager and began firing staff while dunning delinquent borrowers—including some fellow princes. "We are turning it around quickly," he says.

Married (to one wife, a first cousin) and the father of two small children, Alwaleed lives the good life. His $15 million palace complex near his dad's has 130 rooms, 30 bathrooms, nearly 90 servants and a bowling alley, along with indoor and outdoor swimming pools. He has one of the few privately owned Boeing 727 jets in Riyadh, painted in his firm's buff and green colors. He donates large sums to charity and has been a financial supporter of the Afghan resistance.

The future? Alwaleed hopes to open an investment house under the Kingdom Establishment umbrella, probably based in London or New York. While he has some stock and bond investments in the West, Alwaleed says the role of the passive investor isn't for him. "I want my voice to be heard," he declares. "I would love to be a corporate raider."

He leans forward. "I would like," he says earnestly, eyebrows bouncing and hands gesturing, "to have a net worth in ten years of $5 billion." ■

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Lean once more, General Mills is serving up fat returns on the likes of Cheerios, ice cream sandwiches and Hamburger Helper. What's the next course? Good question.

Calling Betty Crocker

By Steve Weiner and Janis Bultman

RECENT RESULTS from General Mills Inc., the $5.2 billion (sales), Minneapolis restaurant and food company, have been nothing short of astonishing.

In the year ended in May, profits rose 30%, to $283.1 million, or $3.25 a share, on a 10% sales gain. Return on equity frothed above 41%, up 10 points in a year and 40% or more above returns of most other food companies. Unit sales of packaged foods, the source of 82% of profits, rose 4%, double the industry rate. Says H. Brewster Atwater Jr., 57, chairman and chief executive officer, proudly: "I think you'd have to look at us and say we've done pretty damn well."

Fair enough. But it won't last, and Atwater himself is the first to say so. Repenting 30 years of wandering off into fields as diverse as chemicals, luggage and two-man submarines, General Mills has sold nearly everything to settle back into the familiar—high-margin mixes and convenience foods, and their restaurant equivalents, for the masses. The company makes Big G brand cereals like Cheerios, Wheaties and Count Chocula; Betty Crocker desserts; Yoplait yogurt; Gorton's seafood and snack foods such as Bugles and Fruit Roll-Ups. Its restaurant group runs Red Lobster, the 410-unit fish house, Yoshida's steak house chain that may be sold or closed; and the Olive Garden, a chain of 100 Italian-style eateries.

Good as the returns on its packaged foods are right now, they are coming in the lowest-growth part of the supermarket. The real action is in "value-added" and fresh groceries—the stuff of bakeries and deli counters. And General Mills is now so big that little less than a string of new product blockbusters would sustain current levels of profitability. This, in a ferociously competitive business where even one hot new item is something to brag about.

Betty Crocker, 1936 style (left) and now
"The red spoon is more attractive."

That's why Atwater himself is forecasting sharply lower growth rates in earnings—down to as low as 6% annually—and returns on equity in the mid-30s this fiscal year and closer to the company's minimal goal of 19% later. Says Atwater, a numbers-oriented manager and former brand marketer: "There will never be anything in our lifetime that will match the returns of our cereal business."

For the hard slogging that lies ahead, General Mills has sturdy assets. Slow or no-growth they may be, but the money continues to be good in its established staples—such stuff as Betty Crocker mixes, Wheaties, Bisquick and Gold Medal flour.

And there's no question that General Mills is vigorously adding products to the lineup—260 in the last five years, representing about 29% of current U.S. food sales. Major initiatives include entry into the frozen novelty business with Betty Crocker ice cream confections and frozen Yoplait, and late but productive entries into the microwave cake and popcorn categories. Fast-growing Olive Garden represents the restaurant group's best hope since Red Lobster was purchased in 1970.

But hard slogging there will be. Protecting solid brands through minor tinkering—and so-called line extensions—has its limits. Hamburger Helper, for example, a stove-top casserole mix introduced in 1970, now comes in 34 styles for tuna, chicken and beef. Most aren't brisk sellers, and some offer dubious convenience. Meat Loaf Helper, for instance, consists of a pan, a small pouch of spices and breadcrumbs for $1.49.

And the effort to find, test market and then go national with a packaged food product has always been great, and it's getting greater still. Consider: The last grand-slam home run hit by General Mills was its introduction in 1978 of Honey Nut Cheerios, good for $163 million in 1987 sales. But the seven bestselling products introduced since then averaged sales of just $53 million each last year. Of 260 products introduced in the last five years, 217 survive, and these averaged 1987 sales of just $4.6 million. "These days, the big food companies have to do $25 million to $30 million in national sales in the first year just to break even," notes Martin Friedman, editor of *Gorman's New Product News*, a publication that tracks new product introductions. Competitors, meanwhile, are just as busy. Some 7,900 new food products were introduced last year, up 73% from five years ago.

General Mills will have trouble coping with food fashions and the mild swing away from mass-market convenience and toward fresher, ready-made, expensive items of distinctive taste. "We're expanding our stores, but not in dry groceries," says Nicholas Alex, a senior buyer for Vons, the big California grocery chain. "The customer knows that often the best products aren't the ones that are heavily advertised. More often, they want fresh." Atwater frank-

ly says that General Mills hasn't figured out how to move into these areas, or even whether it should try; any entry into a brand-new food category is at least two years off, he says.

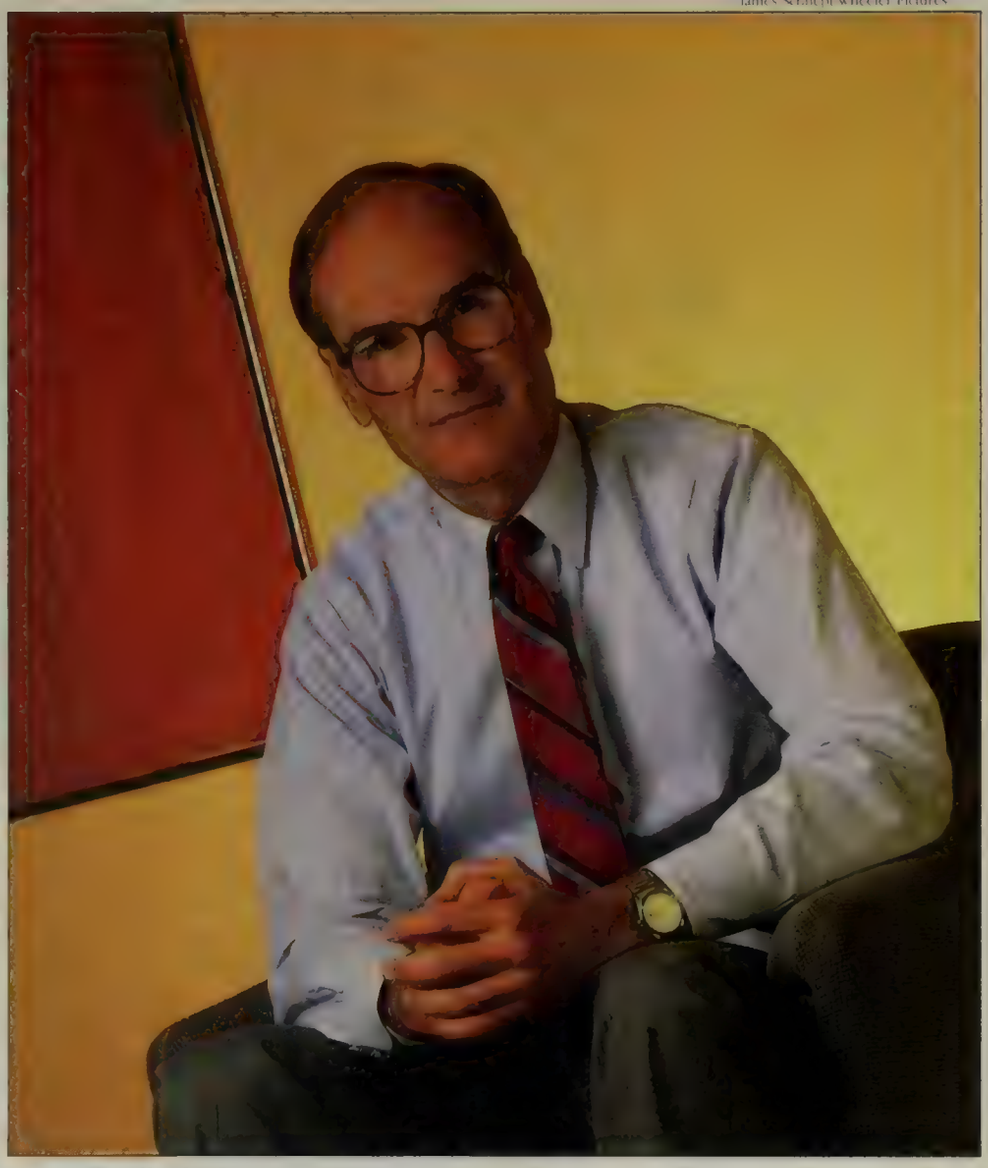
And there is, as ever, the maddening fickleness of the customers, especially kids. The new Betty Crocker brownie ice cream sandwiches and soft ice cream sundaes, for instance, compete in a category in which the average item survives less than a year. Although some of its children's cereals have endured for decades, Big G flopped with its Pac-Man and Rocky Road cereals in just two years.

That's why Atwater predicts no long-term gains from what is one of the company's most promising new products, a 10% fruit-juice drink called Squeezit. The main attraction is the bottle, a long, slim plastic affair that kids hold at arm's length and squeeze, producing a jet of liquid. Atwater gets $1.44 for a 40.5-ounce six-pack; raw materials, including the clever bottle, and other expenses run perhaps 70 cents. (It's $1.89 at the checkout counter.) "We can't make it fast enough," brags Atwater. National introduction is delayed only by a shortage of machines that make the bottles. But will the fad last? No way to tell, Atwater admits. He adds, "This stuff is essentially bellywash."

The battle for market share ebbs and flows as always. General Mills has looked sharp in winning fights over microwave popcorn and cakes. But it has fumbled away some apparent victories. It lost its lead in granola bars to Quaker Oats in just one year when Quaker introduced a superior product a few years back. And its Yoplait yogurt has lately had problems. Introduced in 1977, by 1985 it approached Dannon's leading share of more than 20% of the market. But introduction of a copycat fruit-on-the-bottom product broke Yoplait's momentum. General Mills lost five share points while Dannon gained more. Although Yoplait has since introduced a successful nonfat fruited product, Dannon is once again clearly the market leader.

But all such troubles, painful as they may be, are only business as usual in the tough, branded-food game. Far more problematic, in the long run, are signs that General Mills, after its disappointing wanderings, still doesn't know its own mind. Its postwar diversification efforts, as noted, were erratic. At various times General Mills was in such dissimilar businesses as two-man submarines, electric irons, X-ray equipment, clothing, toys, coins, stamps. By last year the mix had been reduced to food, restaurants and two specialty retailing chains, Talbot's, identified as a "core" business, and Eddie Bauer, labeled a key "growth" business.

James Schnepf/Wheeler Pictures



General Mills chief, H. Brewster Atwater Jr.
"I think you'd have to look at us and say we've done pretty damn well."

Everything settled? Not really. Though both Talbot's and Bauer were enormously profitable, long-term keepers, they were sold earlier this year. No long-term thinking here. "Arbitrage," General Mills President Mark Willes calls it. Japanese and German companies offered unusually high prices for the retailers at a time when General Mills stock was cheap. The net proceeds of more than $200 million were used to buy back General Mills stock. Since 1977, 27% of the stock has been retired in efforts to keep earnings per share and return on equity high. So much for developing "core" businesses.

And how would straight-shooting Betty Crocker react to the latest marketing gimmick from Gorton's, the fish division? To answer consumer complaints that its rectangular frozen fillets look processed and unappetizing, Gorton's now uses a computer-guided saw that cuts the raw material, huge blocks of frozen pollock, into apparently "natural" pieces.

For all General Mills' concerns about financials, Wall Street is unimpressed. The stock has been trading near 46—at 7 points below its 1988 high and 12 below its best 1987 mark. It has a price/earnings multiple of 15, average for a food company.

In a way, the dilemma of General Mills is a little like the history of its Betty Crocker symbol. First drawn in 1936 as a homemaker and updated six times since, the latest Betty looks like a pleasant businesswoman, but draws few favorable comments inside the company. Her face never appears on products, while the other trademark, the red spoon, does. Why? "Of the two, the red spoon is the more attractive," cracks one senior executive.

General Mills doesn't need an entirely new menu, but it surely could use a few new recipes, and maybe someone who knows his—or her—own mind in the kitchen. ■

Banker Crosby Kemper talks a global game, but when it comes to lending he stays prudently close to Kansas City.

Bold talk, safe banking

By Rick Reiff

RUFUS CROSBY KEMPER, 61, has an ego to match his 6-foot-7 frame and is not at all shy about expressing his views. He has a decidedly apocalyptic view of the U.S. economy and runs his smallish regional bank holding company, United Missouri Bancshares Inc. (assets, $3.5 billion), accordingly.

"We have financed our consumption with printing press money," Kemper scolded in this year's annual report, looking back on 1987. With its weakened dollar, he said, the U.S. is heading down the same dark path as did 17th-century Spain. The previous year's subjects: the Reykjavík arms control talks ("a near disaster"), the Iran-contra affair ("undermines the American people's trust in their chief executive") and, prophetically, the "crazy rise in the stock market."

What's this got to do with running a Kansas City-headquartered bank? For one thing, says the silver-haired chairman and chief executive officer, if bankers paid more attention to history, they'd make fewer bad loans. Kemper says regional banks wouldn't have been sucked into the foreign loan crisis if they had remembered to avoid markets they don't understand. "They said, 'Look at all the money we're getting.' I said, 'Yeah, but you're getting a thin spread, and what do you know about the credits?' "

Under Kemper's baleful eye, United Missouri has made few serious errors. Just 0.5% of its loans have soured, about one-third the usual rate. Only 2% of the bank's lending is to agriculture, less than 1% is in energy, and not a penny has been lent overseas. Construction loans constitute only 14% of United Missouri's portfolio. Kemper is so cautious about this sector that he refused to lend money to John A. Kroh, then a director of United Missouri's biggest bank, United Missouri Bank of Kansas City. A wise decision, it turned out—many banks got stung when the Kroh family real estate empire collapsed in December 1986. "We loan on character," says Kemper, "but we also get collateral."

In addition to solid loans, United Missouri makes good money on a canny mix of services. As one of the nation's ten largest mutual fund custodians, it keeps the books and distributes dividends for $40 billion in

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accounts. United Missouri also runs one of the ten biggest clearinghouses for commercial paper. Kemper started this business, in Manhattan, two years ago because he didn't like the service he was getting from the money center banks. Last year the bank saved $1 million in transaction fees and made pocket change processing trades for other trust departments.

Neglecting no neighborhood niches, United Missouri does well, too, as the banking big brother for 1,100 tiny banks in seven Midwest and Great Plains states. Kemper sells cash management services to these banks, which, together with other investors, buy and sell $20 billion in municipal bonds through United Missouri annually. Each day, these country banks also generate close to $1 billion in excess deposits that United Missouri brokers nightly in the fed funds market. Altogether, such innovative businesses produced about 24% of United Missouri's $287 million revenues in 1987—all without the interest and credit risks associated with lending.

United Missouri Bancshares Chairman Rufus Crosby Kemper
"We loan on character, but we also get collateral."

A company's style usually reflects the style and character of its chief executive, and Crosby Kemper doesn't mind telling you that he puts his stamp on United Missouri. A graduate of a Massachusetts prep school and the University of Missouri, and an unsuccessful 1962 U.S. Senate candidate, he's clearly at home in Kansas City. He spearheaded construction of Kemper Memorial Arena, named after his father and home to the American Royal Livestock & Horse Show, one of his pet projects. The Chicago branch of the family founded the Kemper insurance group, while the Crosby side started the forerunner of General Mills. His cousin, James M. Kemper Jr., is chairman of hometown rival Commerce Bancshares Inc. Nephew David is chief executive officer there.

There's little love lost among the Kempers. Crosby last September gleefully bought an advertisement in local newspapers noting that David had moved to St. Louis. His acerbic style was too much even for his son, R. Crosby Kemper III, who left United Missouri in 1981 and now works at a bookstore in New

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Kemper is clearly no diplomat. He accused Missouri Governor John Ashcroft of a "corrupt act" last November when another bank was awarded a $55 million state account. (The governor flatly denied it.)

Abrasive, Kemper surely is at times, but he's other things as well. A fourth-generation banker, he still puts in 11-hour days. He regularly calls on customers, whom he can charm with a folksy style. He has decorated United Missouri's two-year-old corporate headquarters with $12 million in American art and given $32 million to civic causes. He has a sense of humor: He pays off football bets with checks drawn on United Missouri's branch in Tightwad, Mo.

Kemper has not remained aloof from the merger game. In January he made a low bid of $34 a share for St. Louis' Centerre Bancorporation but stood aside as the bidding mounted to $60 a share. Another St. Louis outfit, Boatmen's Bancshares Inc., got Centerre, but Kemper got a consolation prize: a profit of $8.5 million from Centerre stock that he began buying in 1984 for himself, United Missouri and his family's charitable trust. "We, naturally, would not pay up like Boatmen's," he says.

If the bank is run more as a business than as an institution, it's no accident: Kemper personally controls 17.6% of the company's stock. Uncle William T. Kemper, trust clients and directors and employees, most of whom owe their prosperity to Kemper, hold another 26%. Kemper hints that he may stay on past the usual retirement age of 65. His likely successor, President Malcolm Aslin, can afford to wait; he is only 41. And the next Kemper in line, adopted stepson Alexander, an assistant cashier, is only 23.

Meanwhile, United Missouri's numbers continue to look good. Profits rose only 4% last year, to $32 million, or $2.55 a share, but earnings were up smartly in the first six months of 1988: 8%, to $1.37 a share. The stock has averaged a 17% return to shareholders the past ten years. It lately has been trading over-the-counter at 27, a healthy 16% over its book value.

With $310 million in primary capital (8.9% of assets), United Missouri is well protected from those clouds [illegible] sees on the economic horizon. The bank, rich in cash and deposits, has [illegible] potential for generating new loans. But Kemper won't grow just to be bigger. "Credit," he says, "is still the essence of banking." ■

Science & Technology

Edited by Gary Slutsker

Inventing a better mousetrap is one thing. Getting others to use it is quite another, as Ken Pye is discovering with his new, nonpolluting recipe for turning trees into pulp.

"Everybody wanted the second plant"

By James Cook

Kendall Pye, a bustling biochemist who heads the research arm of Montreal's Repap Enterprises (Forbes, *June 13*), has been working for seven years now on a new process for turning trees into wood pulp. It's called the Alcell (for alcohol cellulose) process, and Ken Pye thinks Alcell's a winner. So does Repap Chairman George Petty, who last May committed Repap, a $713 million (1987 sales) pulp and paper company to building a 36-ton-a-day demonstration plant at Repap's paper mill in Newcastle, N.B., where construction is already under way.

What the minimill did for steel production a few years ago, Alcell's alcohol cellulose process promises to do for the huge pulp and paper industry. So far, nobody has licensed the technology from Repap, but the company is hoping its demonstration plant will convince any doubters of the merits of Alcell. The tab for now: $54 million, including break-in costs of $17 million. Half of that will come from the Canadian government in a cash grant. Once the Newcastle plant is broken in, Petty and Pye expect to lay out another $80 million to bring the Alcell plant to its full 250-ton-a-day commercial capacity.

Wood pulp, of course, is the raw material most paper is made of, and Alcell is a cheaper, more efficient way of producing pulp than the kraft and largely obsolete sulfite processes. To create pulp, mills cook wood chips at high temperatures in a mixture of caustic chemicals to separate the wood fibers from the glue, or lignins, that holds them together.

The chemicals involved in these existing processes—sulfur dioxide, sodium sulfite, sodium sulfide and sodium hydroxide—are hideously polluting. Keeping that pollution under control costs big money. That's why most of the industry's sulfite mills are gradually being closed.

At the same time, the less-polluting kraft mills cost maybe $455,000 a ton to build and have to be built big—capacities of at least 1,100 tons a day—to justify their economics. Thus, a new mill will likely cost more than $500 million. Nor does the big spending end there. Everything else has to be correspondingly large—the forest resources that feed the mill at one end and the paper mills and markets that take the plant's output at the other end.

Repap's Alcell process would solve both the pollution and scale problems in a single stroke. The Alcell process is essentially nonpolluting. It uses alcohol and water rather than sulfur- and sodium-based chemicals to break the wood chips into fiber. Because it eliminates the need for the costly pollution controls and chemical recovery equipment of the kraft process, the Alcell process requires only 70% to 80% as much capital per ton at comparable levels of capacity.

Better still, it can produce pulp eco-

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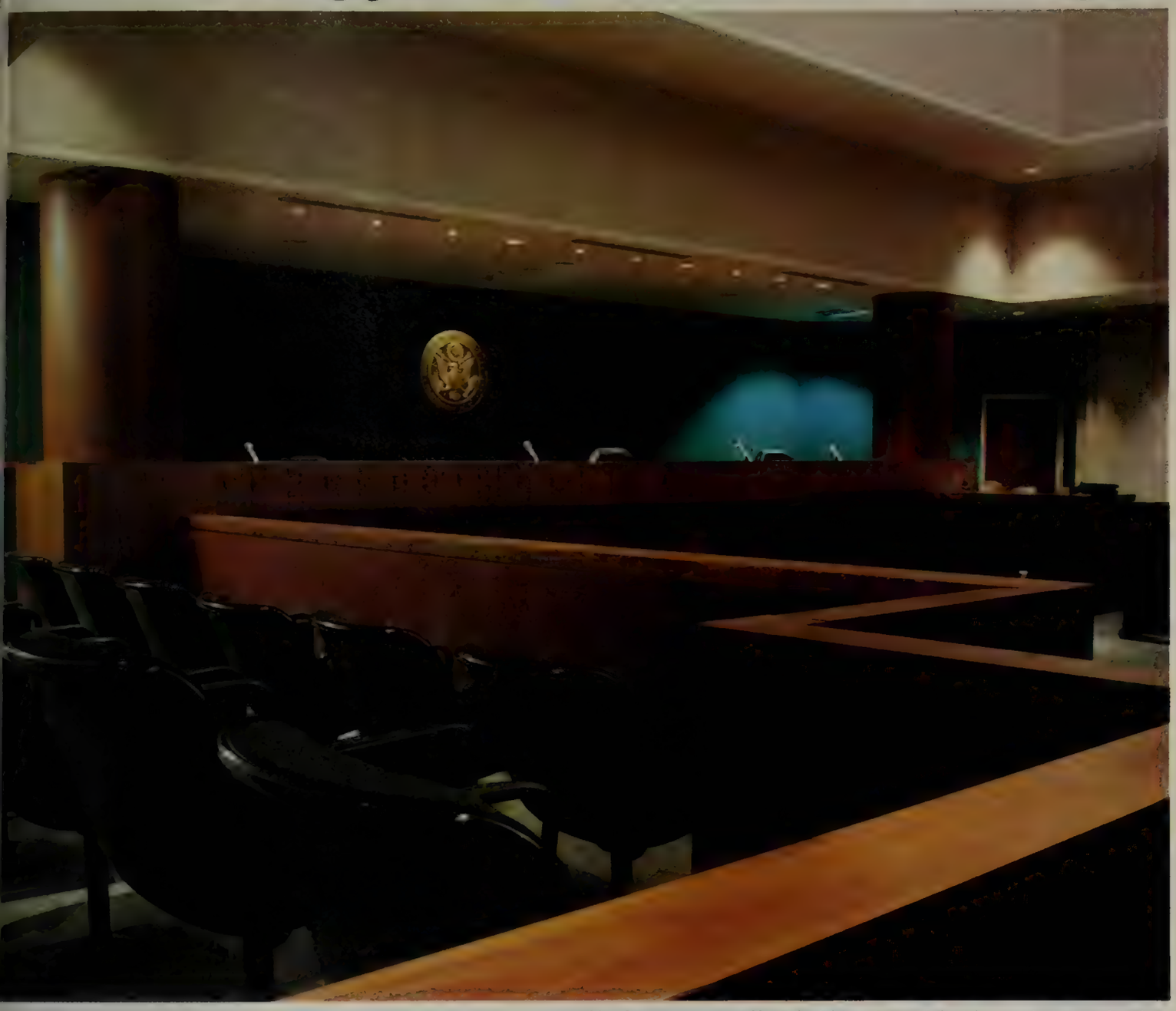

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Science & Technology

nomically in quantities as low as 220 tons a day, though at that scale the capital costs may run as high as $170 million. Such mills, Pye says, can not only match the production costs and quality standards of large kraft mills, but they can also be used to exploit small forest resources and to integrate paper mills too small to access the large-scale kraft mills. That last characteristic is especially attractive to Third World countries with limited resources and markets.

A onetime biochemistry professor at the University of Pennsylvania, Ken Pye developed the Alcell process while working for a General Electric-backed startup known as Biological Energy Corp. When he joined the outfit seven years ago he was working on a process for converting cellulose—natural plant fibers found in everything from sugar cane to wood—into liquid fuels like ethanol. Collapsing oil prices finished that off, so Pye turned to the pulping process.

Once Pye proved the process in a 27 pounds-a-day laboratory prototype pulping facility, GE began searching in vain for a partner to build a commercial-scale plant based on its proven process. "We approached almost every big U.S. pulp and paper company," recalls Pye. "But you talk to companies in any existing industry, and they always say, 'That won't work.' "

In the end, George Petty and Repap Enterprises took over the company from General Electric in 1984 and renamed it Repap Technologies. "Nobody wanted to build the first plant," Petty says. "Everybody wanted the second plant."

Pie in the sky? Ken Pye doesn't think so, and neither do the two West German firms—MD Papierfabrik and Feldmühle—that are working on similar if, in Pye's view, economically inferior processes. Nor does Canada's Pulp & Paper Research Institute, which has given the Alcell process its seal of approval.

The Alcell process won't put existing kraft mills out of business. For one thing, it can be used only for hardwoods so far—birch, beech, maple—not yet softwoods like spruce or pine, which account for perhaps 50% of the industry's wood supply.

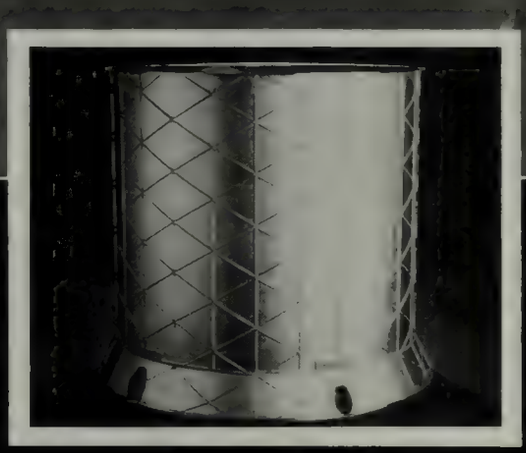
Pye expects it will first enter the market as a replacement for existing sulfite mills. Companies from Wausau Paper Mills to Scott Paper have been closing their old sulfite mills sooner than spend the $20 million to $50 million needed to solve their pollution problems. The Alcell process would enable them to preserve their investment by replacing the pulping operation at lower total cost and at capacities as low as 130 tons a day.

The economics of the Alcell process are appealing. For one thing, the alcohol recovery process yields substantial quantities of chemical byproducts—virtually cost-free lignin, for instance, a natural binding agent used in making waferboard, fiberboard, plywood. Says Repap Chairman George Petty: "We expect we will get double the revenue from a ton of wood we get from normal pulping technology."

The byproducts, in fact, shape up as major businesses in themselves, yielding profits that will further enhance the cost advantage of the Alcell process. Because they don't depend solely on the pulp market, for example, such mills will be less vulnerable to the cycles that periodically beset the pulp business.

With almost 70 million tons a year of chemical pulp production in North America, Pye points out, Alcell won't radically affect pulp prices industry-wide. But those who have the process, he says, will be sitting pretty: "We'll be able to ride on the industry's higher costs."

When will the paper industry start licensing Repap's technology? "I figure once we make the decision to expand that demonstration plant to 250 tons a day—maybe a year from now—we'll be getting people signing up," he says. Then, recalling his experience at GE a few years ago, he adds: "We've got a list of 40 or 50 companies that wanted to build the second plant." ■



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Commentary by Esther Dyson

COORDINATION TECHNOLOGY

In the pages of the *New York Times* and the *Harvard Business Review* a debate rages: Is the day of big companies returning in a world beset by international competition and declining U.S. business prowess? Has the day of the entrepreneur already waned?

Let's hope not. Small companies are a natural source of vigor, creators of new jobs and new ideas. They help bring about healthy sociological change—through them, for instance, women and minorities can make it on their own, overcoming market forces instead of intracompany politics.

But even without all this, technological change alone will foster the success of small companies in an era where most value-added is information-based. (Think of drug distribution, reservation systems and financial instruments.)

The basic tenet of the big-company school is that the world is getting so big, global and complex that only big companies can succeed in it. In the old days, small companies could flourish in niches; now, the thinking goes, there aren't any niches. How can the small guys compete?

Quite well, in fact. There are two major reasons. One is simply the coordinating power of industry-wide standards, which can compete with the coordinating power of a huge, vertically integrated company. If all railroad tracks are the same width, there's no need for a railroad to make its own railcars and there's room for a new railcar-maker to get its foot in the door. In the same way, computing standards enable customers to mix and match hardware and software from a variety of suppliers. In such a world an entrepreneurial startup can compete effectively with an IBM. You put your Ashton-Tate database manager on your IBM-compatible Compaq machine, which uses an operating system from Microsoft.

Esther Dyson is editor and publisher of the newsletter Release 1.0

The other reason entrepreneurs can thrive is better communications, based both on faster wires and better software, which enables small firms to work together or coordinate just as effectively as units of large companies do.

There are two basic ways of coordinating large-scale productive/economic activity—hierarchies and markets. Hierarchies are a natural, effective structure when communication costs are high; one central authority knows what's going on and controls everything, while the individual players need little or no information.

However, as ably pointed out by Professor Thomas Malone of MIT's Sloan School, information technology will have a huge impact on the relative merits of centralized direction versus local initiative. (Malone is forming a center at MIT to study coordination technology.) Now, with faster electronic communications and more extensive electronic data, it's possible to have effective horizontal coordination, not just within companies but across them: If you can specify exactly what you're ordering (standards or good information) and can keep in touch on quality, timely delivery and good record-keeping, you can safely buy from outside.

I'm not talking about a group of similar companies in the same business getting together, but about a group of different firms working together in different roles that together amount to a single "virtual" company.

Take Magicorp, a small company that you might describe as a service integrator. It runs a slide-making shop, and relies on other companies for the rest of its operations. People who use graphics software on their personal computers send data by phone to Magicorp's office in Wilmington, Ohio. Why Wilmington? Because Airborne Express' hub is there, making a fast turnaround quite feasible. There's another element of symbiosis here. Rather than do its own marketing, Magicorp relies on graphics software vendors to promote its services, for which it pays them a royalty.

Vertical integration makes sense in a world where it's the only way to ensure that you'll have a steady, reliable source of the exact quality and quantity of products that you need; in a communication-, coordination-rich world, it's no longer necessary. In fact, it may be a disadvantage. There's a lot of redundant information generated, managed and wasted when someone at the top needs to manage things; there's an extra layer (or several) of fundamentally unproductive people whose only job is traffic control, not locomotion; and there's a tortuous communication path up and down the hierarchy that simply slows things down.

But then who makes the important decisions? The same people who always made them. The guy who designs the product still does that; the guy who determines what the market wants still does that; the guy who figures out the best way to build it still does that. The only difference is that there's no one person at the top trying to make all those decisions. (Look at the Soviet Union as it was and still, painfully, is, to get a sense of what that is like!)

Someday I could imagine, say, an airline that farms out the task of flying its planes and makes all its money managing a seat inventory and optimizing ticket prices—an airline on a desktop. Or a long-distance telephone company that owns no wires. Or a drug wholesaler that has no inventory. In sum, the innovations in computer technology that small firms are creating will make the world safe for small firms. ■

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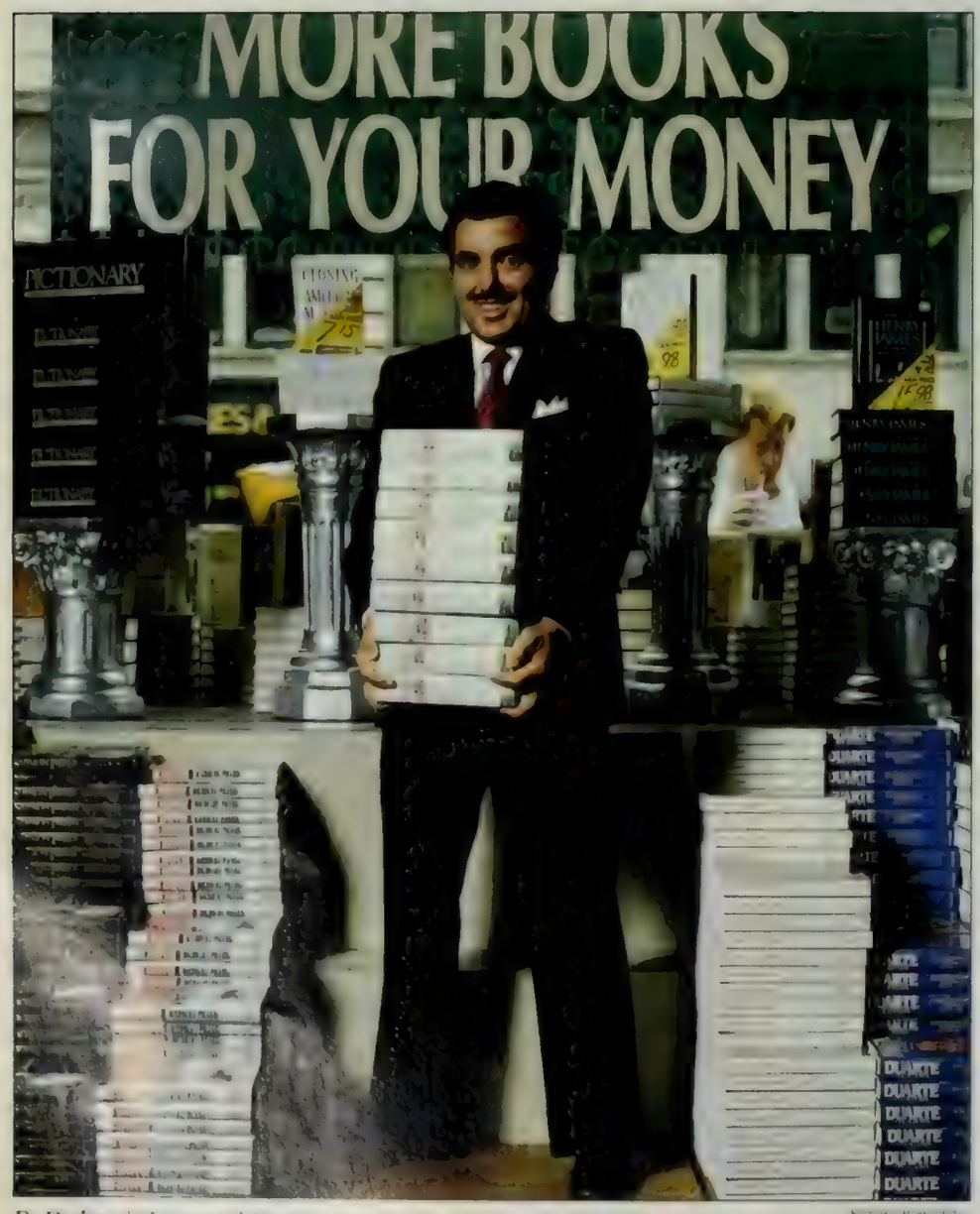
Marketing

Edited by Jeffrey A. Trachtenberg

How do you get people to read books in the television age? Here's Leonard Riggio's answer: Sell, and sell hard.

"Full color and in motion"



B. Dalton's Leonard Riggio
Selling books with Hollywood-type flair.

By Eric Schmuckler

If you can't lick 'em, join 'em. That's how Leonard Riggio will sell nearly $1 billion worth of books in the U.S. this year. Are Americans reading less because they are busy watching TV? So join 'em: Riggio uses TV to sell books.

"Most people look at books as black-and-white and two-dimensional, but I see them in full color and in motion," says Riggio, the U.S.' biggest bookseller. Together with Dutch retailer Vendex International, N.V., he owns two huge U.S. bookstore chains, B. Dalton Bookseller and Barnes & Noble. "A bookstore is an entertainment and learning center," he adds. "You've got to liven it up."

Riggio is spending $5 million a year on spot television commercials that promote not only bestselling books, but also "Books Dalton," a character meant to represent B. Dalton. Riggio notes that mass market retailers have used TV effectively for years. Selling books should be no different. "Television works better than print in all cases," he insists. "It widens the audience substantially, rather than keeping reading an upper-crust activity."

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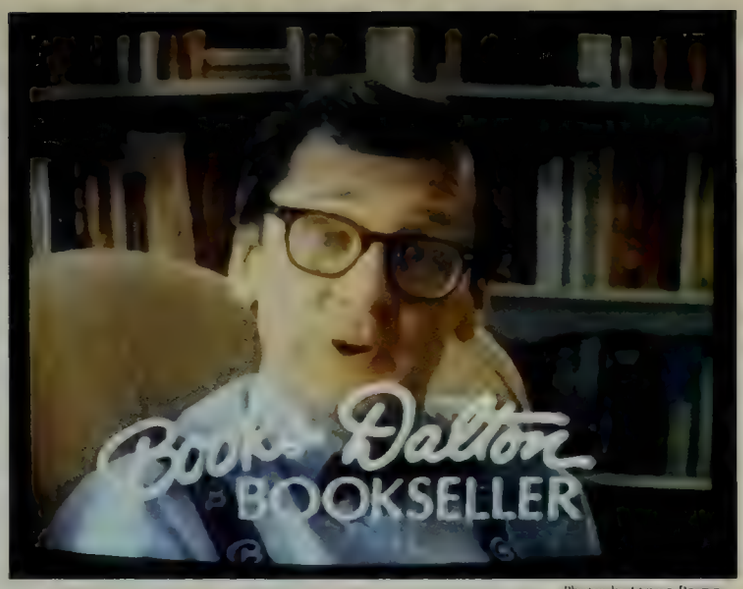

Jackie Collins and "Books Dalton" in scenes from a Dalton TV commercial
"Read it if you dare. Feel the heat."

Photos by Steven Brown

Tip O'Neill on TV last fall, Dalton sold an astounding 65,000 copies. But Riggio hopes the campaign will do more than simply move individual books. "We're promoting the idea of books as much as books themselves," he says. "We sell books that people need for home, work, school or hobbies. But books are a consumer item as well, and you can't dismiss that."

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Walden's way

Waldenbooks, with 1,200 outlets and sales of about $800 million, leads B. Dalton in sales and stores, thanks mainly to President Harry Hoffman's aggressive marketing. Waldenbooks is owned by K mart.

Most successful are Walden's five book clubs, for those interested in mystery, science fiction, romance, children's books and books marketed to those 60 years and older. The clubs' 3.5 million members receive monthly newsletters to pique their interest in new titles. Members also get a 10% to 15% discount at Waldenbooks stores.

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With the shopping mall market all but saturated, Walden must look elsewhere for expansion. Hoffman is pursuing a line extension strategy, with children's stores (Waldenkids), upmarket, full-line stores (Brentano's) and warehouse-size superstores (Waldenbooks & More). Hoffman's latest gimmick is a campaign to air-express books ordered by phone, as consumers have long done with candy and flowers.

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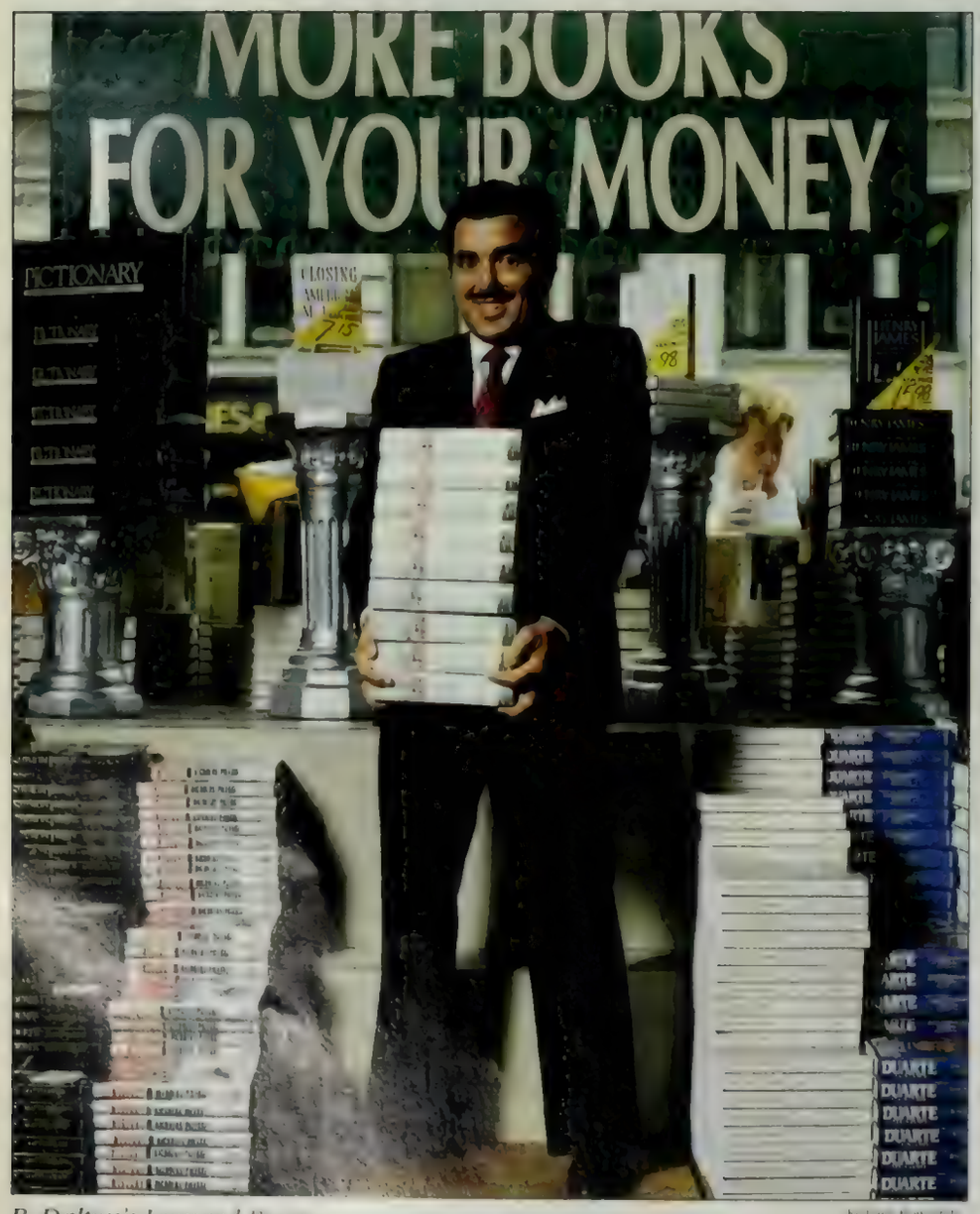

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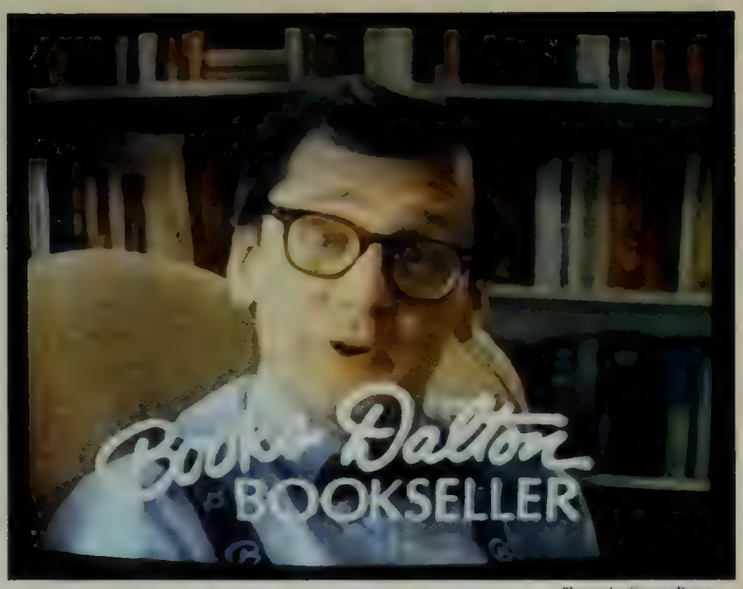

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Personal Affairs

Edited by William G. Flanagan

Fond of collecting things? Enjoy it as a hobby. As a way to make money, it's a sophisticated—and often rigged—game.

Collectibles are not forever

Scott Brace and lunch boxes he made famous
"I wanted to get a marketing monopoly."

By Michael Fritz

EVERYONE seems to be collecting something these days, and paying hysterical prices—$2,000 for a 1935 Mickey Mouse lunch box; $5,000 for a mint Indian swirl "shooting" marble; $22,000 for a Haskell minnow fishing lure; $34,100 for an oculist's sign shaped like glasses. And get this, baseball fans: $100,000 for a Honus Wagner baseball card. In all, Americans shell out over $5 billion a year for what once was, and could once again become, junk.

To the innocent, it appears that collectibles simply increase in value as more and more collectors miraculously become turned on to the same things, at the same time.

Professionals and dealers know better, of course. If you are serious about collecting anything, you owe it to yourself, or your heirs, to bone up on what is really a sophisticated—and often rigged—game.

A good place to start is with *How to Make the Most of Your Investments in Antiques & Collectibles* (Arbor House, $17.95), by Harry Rinker, editor of two collectibles guides and fancier of Hopalong Cassidy memorabilia. He points out that the popularity and value of what you collect depend on long- and short-term cycles, which are often manipulated by auctioneers, major collectors and dealers.

For many collectibles, says Rinker, interest runs in 20-year cycles. (In the case of American folk art, however, the cycle is 50 years—reflecting major celebrations of America's independence. With presidential memorabilia, of course, the cycle is four years.)

Some categories are still too new to peg, but it's a safe bet that most of today's hot new collectibles—those less than 30 years old—will soon fizzle. Several years ago, for example, Avon bottles and glass insulators were the rage; today's buyer will have a long wait for interest to rekindle.

For older collectibles, however, there is often a cycle within the cycle: a window of time ranging from 6 to 30 months, when prices double, triple or even quadruple, then stabilize for 3 to 6 months, and then drop 20% to 30% to a new floor. It is this shorter cycle that is carefully watched—and sometimes manipulated—by some collectors and dealers.

When a collectible starts to move, nothing gets the feeding frenzy going faster than a traveling museum show. Take quilts. The Museum of American Folk Art mounted a quilt show that has been seen by 4 million people in the last two years. Prices of top-

quality quilts have shot from $20,000 five years ago to $220,000 today, says Robert Bishop, director of the museum. Bishop, an avid collector of double wedding ring quilts, is at work on a splashy book on the subject due out in April.

Books themselves can fuel the flames. Stuffed calico toys, woodenware, pottery and other such Americana took off after New York designer Mary Ellisor Emmerling's bestseller, *American Country: A Style and Source Book*, was published in 1980. The sudden passion, in the early 1970s, for 1930s glassware owes much to Hazel Marie Weatherman's two volumes of *Colored Glassware of the Depression Era*, published in 1970 and 1974. Vintage board game prices took off in 1984 when collectors got wind of Lee Dennis' forthcoming price guide. (Surprise: Over half of the book's examples were from Dennis' own private collection, which is being auctioned off this September.)

Magazines can have a similar impact, especially *Architectural Digest, HG, Interior Decorating* and *Metropolitan Home*. Last month Hearst launched *Victoria*, a national bimonthly, in response to budding demand for furniture and memorabilia of that era.

A crafty collector/dealer can sometimes create a collectible category out of whole cloth—or even old lunch pails, as did Scott Bruce of Somerville, Mass. *(see box, below)*.

Baseball card dealer Alan Rosen, alias Mr. Mint
Cash into cards into more cash. Quickly.

Like stock market analysts, some dealers and investor/collectors swear by technical analysis of the price movements of collectibles. When middle- and low-end pieces in any given category rise 5% to 10% over a three-month period, the party is under way. It's then that dealer inventories of the collectible suddenly swell, collectors' clubs form and soon you hear of record prices at single-owner auctions. Second and third reference books promptly follow. But then the bubble bursts. Collectors rarely engage in panic selling, but once prices have peaked, they might have to wait decades for renewed appreciation, if it comes at all. Meantime, they're out at least the opportunity cost of their investment.

Another pitfall for the neophyte is rigged auctions. Unscrupulous dealers and investors sometimes form illegal pools to control bidding or force private collectors to bid up pieces. It's an old, but ever popular, scam. A dozen Philadelphia antiques dealers were nailed last fall for fixing antique and country furniture auctions in Delaware, New Jersey and Pennsylvania. And the Justice Department's New York office is now investigating auction house activity in New England.

Counterfeiting and tampering are rife, too, especially with ceramics and Early American furniture, says Kyle Husfloen, editor of *Antique Trader Weekly*. Modern plastics and other synthetics have made the task of exposing tampered pieces increasingly difficult, says conservator Kory Berrett, of Delaware's Winterthur Museum. Disreputable restorers now employ an arsenal of acrylics, urethanes and epoxies that are difficult to detect. One good reference on the subject is *Fake, Fraud, or Genuine?* by Myrna Kaye (Little, Brown, $29.95).

The making of a collectible

Three years ago I wanted to get a marketing monopoly on a collectible and hit all the angles," says Scott Bruce, a 33-year-old fine arts gallery worker from Somerville, Mass. After visiting a Boston junk shop, the spark hit him—kiddie lunch boxes. He soon filled his apartment with them. Average price: about $10.

Like most collectibles, lunch boxes are hardly rare—120 million were made between 1950 and 1970, decorated with everything from Disney characters to the Beatles to Captain Kangaroo to Soupy Sales. But production of metal boxes has been phased out. "They reflect the whole electronic landscape of the baby boom," says Bruce. "All the TV shows that we grew up with are in the artwork. So there's a mother lode of nostalgia."

To gather whatever folklore and other materials he could about lunch boxes—valuable in themselves, but also necessary for the newsletter, book, price guide and traveling exhibit he had in mind to fuel collector interest—he hounded manufacturers. But Aladdin Industries, Ohio Art, King-Seeley Thermos and others had trouble taking him seriously. "They assumed I was an industrial spy," he says.

Bruce's big break came in late 1986, when King-Seeley underwent restructuring and disgruntled employees gave him access to archival materials. He also managed to smuggle out a cache of original art, including lithograph plates and proofs.

Bruce was then all set. A year and a half ago he launched *Hot Boxing*, a 14-page quarterly newsletter of artists' and collectors' profiles and features on manufacturers. In October Chronicle Books of San Francisco will publish his *Lunch Box: The 50s and 60s*, a 120-page coffee-table book filled with lavish color illustrations, artists' profiles and anecdotes about the creating and licensing of lunch boxes.

Bruce is also busy hustling up corporate sponsors to mount a traveling museum exhibit scheduled to open October 1989 and tour some 15 cities over three years. In February, Random House will publish Bruce's *Official Price Guide to Lunch Box Collectibles*, essentially an inventory of his own stuff.

If you have an old Soupy Sales lunch box lying around, thank Bruce. In the last year its value has risen from $45 to between $250 and $300, he says. If anyone offers, grab it.—**M.F.**

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Since many collectibles popular now were often mass-produced a generation or two or three ago, there is also the danger that a sudden cache of mint items will turn up, collapsing values. When a stash of 57 near mint 1952 Mickey Mantle baseball cards was discovered two years ago, for example, the cards' value temporarily dropped from $3,500 to $2,500.

If you're into baseball cards, consider Alan Rosen, a collector known in the trade as "Mr. Mint," who scours attics and basements around the country for cards. He totes a suitcase filled with cash and pays top dollar on the spot. Aside from a few mementos, he dumps every card he buys as fast as he can. He doesn't want to get stuck when the music stops.

As investments, then, collectibles can be tricky. But many amateur collectors don't care a fig about whether their collections ever rise in value. In fact, they'd prefer that prices drop—so they can build their collections more easily and less expensively. They have the right idea. ■

A softer touch

Supporting your alma mater is a bit more painful owing to recent changes in the tax laws. You simply don't get the same deduction you once did (the maximum bite on each additional dollar you earn is now 33%, remember, compared with 50% as recently as 1986).

Enter the deferred gift annuity, which blesses you twice for your generosity. You will get a charitable tax deduction, and also annuity payments when you retire. Live long enough and you'll even get back more than you donate.

It works like this: You make an outright, deductible gift to the charitable institution, and in return get a deferred annuity, which begins paying you back on a preset date. The longer the deferral period, the greater the deduction *(see table)*.

You needn't fund your gift annuity with cash, by the way. Gifts of appreciated securities, real estate, art, antiques and collections can also be made—sparing you any capital gains consequences. And annuities can be written to include one or two people—allowing a spouse to benefit from the gift, for example.—**W.G.F.**

Deferred payment gifts

Here's how Trinity College, Hartford, Conn., has set up its gift program for alumni and other donors. Your own alma mater doubtless has a similar program. The initial gift here is $10,000, but smaller gifts can be made. It's also possible to spread the donation over several years.

Age of donor	Annual payment at age 65	Charitable deduction
25	30.8%, or $3,080	$9,630
30	26.6%, or $2,660	$9,480
35	22.8%, or $2,280	$9,270
40	19.2%, or $1,920	$9,000
45	16.1%, or $1,610	$8,630
50	13.2%, or $1,320	$8,140
55	10.8%, or $1,080	$7,430
60	8.7%, or $ 870	$6,430

Getting the news abroad

How, if English is your only language, do you keep abreast of breaking news when traveling abroad? Cable News Network isn't piped into every hotel. English-language newspapers are often stale by the time they reach you.

Shortwave radio is still the best means of getting reliable English-language newscasts around the clock, just about anywhere in the world. And the shortwave receivers themselves keep getting smaller, cheaper, more powerful and easier to use. Battery-powered, pocket-size models weighing less than 9 ounces and retailing for less than $100 can pull in signals quite adequately. The choice of many journalists is Sony. The smallest Sonys in this price range carry model numbers ICF-4920, ICF-4910 or ICF-4900, but Panasonic, Toshiba and Magnavox have comparable sets. Some radios the size of a paperback include digital tuning, can be preset, have clocks with alarms, and run around $200.

The Voice of America and the British Broadcasting Corp.'s famed World Service ("This is London . . .") are the most likely news sources for Americans. The VOA carries more American news but is sometimes harder to pick up because of less effective transmitters and fewer broadcast hours. BBC news can be heard nearly every hour on the hour, almost any place on the globe.

For the VOA schedule and frequencies call the Office of External Affairs at 202-485-6231. For a BBC schedule write London Calling, P.O. Box 76, Bush House, Strand, London, England WC2B 4PH. Even without a schedule, however, you can usually catch these newscasts by fiddling with the dials at the top of the hour.

Another U.S. news source on shortwave is the *Christian Science Monitor*'s World Service. And you can also hear meaningful news in English on Radio Canada International, Deutsche Welle (West Germany) and, in the Middle East, the Voice of Israel.

You can also pick up BBC or VOA broadcasts on conventional AM frequencies in parts of Europe, the Middle East, East Africa, the Indian subcontinent

and the Caribbean. In Singapore, the BBC can be heard on FM.

U.S. Armed Forces Radio & Television Service, which carries American network newscasts, is scheduled to end 47 years of shortwave service on Oct. 1. In its place, however, will be satellite feeds to low-power AM transmitters near U.S. military installations. AFRTS, therefore, will reach AM radios in places like West Germany, southern Italy, Japan, Korea, the Philippines and Panama. Unlike shortwave, however, these AM signals are stronger during daytime, when the transmitters operate with higher power.—**William P. Barrett**

Sotheby's Art Market Trends

Index sectors	June 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two years % change	Five years % change	Five years average annual % change
Old Master paintings	373	373	346	303	212	nil	+7.8	+23.1	+75.9	+12.0
19th-century European paintings	347	347	303	251	185	nil	+14.5	+38.2	+87.6	+13.4
Impressionist & Post-impressionist art	1,091	1,091	521	380	275	nil	+109.4	+187.1	+296.7	+31.7
Modern paintings (1900-1950)	1,090	1,090	544	364	266	nil	+100.4	+199.5	+309.8	+32.6
Contemporary art (1945 onward)	728	728	597	524	366	nil	+21.9	+38.9	+98.9	+14.7
American paintings (1800–pre-WWII)	958	958	789	687	501	nil	+21.4	+39.4	+91.2	+13.8
Continental ceramics	407	407	320	290	272	nil	+27.2	+40.3	+49.6	+ 8.4
Chinese ceramics	684	684	550	493	445	nil	+24.4	+38.7	+53.7	+ 9.0
English silver	388	388	349	314	219	nil	+11.2	+23.6	+77.2	+12.1
Continental silver	260	260	201	190	156	nil	+29.4	+36.8	+66.7	+10.8
American furniture	469	469	451	333	239	nil	+ 4.0	+40.8	+96.2	+14.4
French & Continental furniture	355	355	319	285	249	nil	+11.3	+24.6	+42.6	+ 7.4
English furniture	720	720	594	447	282	nil	+21.2	+61.1	+155.3	+20.6
Aggregate index*	650	650	435	351	265	nil	+49.4	+85.2	+145.3	+19.7

Basis: 1975 = 100 ($). ©Sotheby's 1988

*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

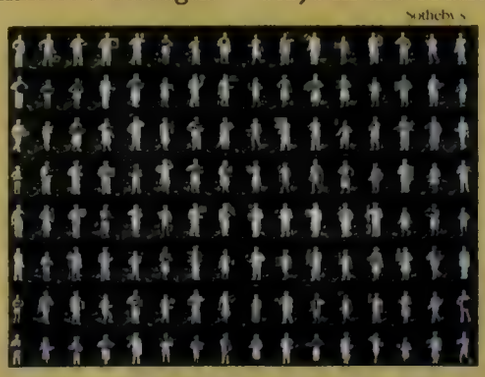
Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Index highlights

The latest series of Impressionist and Modern painting auctions held in London in June continued the pattern of record-breaking prices seen in New York during the May sales in this sector. Claude Monet's painting of his wife in a field, *Dans la prairie,* surged to $24.3 million, almost four times the previous auction record for a Monet. It was the third most expensive painting ever sold at auction.

One factor contributing to the market's strength may have been the recent rally of the dollar, which was sufficiently strong to encourage American buyers, yet apparently not strong enough to deter the other main participants—Japanese and European buyers—who continued to be active bidders.

Several auctions took place in Monaco, with mixed results. Within the sales of Old Master and 19th-century European paintings, one session produced $7.4 million with 24% unsold, while another resulted in $2 million with as much as 43% unsold.



Fundamental Lexicon, *by Soviet artist Grisha Bruskin, auctioned in Moscow*

The furniture sales in Monaco were also uneven, with a number of high prices seen, but also a relatively high number of items unsold. Interestingly, the French government exercised its right and preempted one lot immediately after the sale, stating that it would pay the price realized. The government can use this compulsory purchase system to ensure that a work of art considered to be of national importance stays in the country, while also allowing the seller to receive full market value.

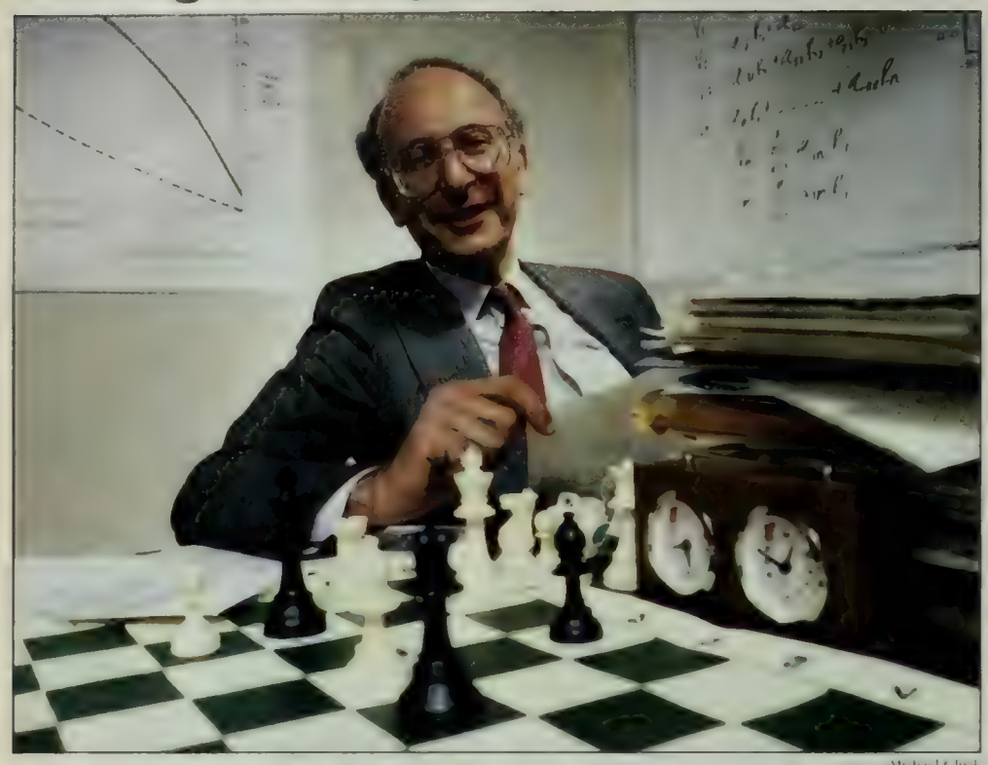
Monthly highlights

The first international art auction in Soviet history took place in Moscow July 7. The auction included 119 paintings by contemporary Soviet artists as well as early 20th-century works of the Russian avant-garde. The artwork, bought by Europeans and Americans, many of whom had flown to Moscow for the event, sold for a total of $3.6 million, more than triple the presale estimate.

Faces
Behind the Figures

Edited by Jerry Flint

Making debt pay



Michael Gluck

Salomon Brothers' Andrew Kalotay
"Pick a topic, become an expert."

Andrew Kalotay may be bad news for bondholders, but he has made millions for companies that issue bonds and, in the process, millions more for his employer, Salomon Brothers Inc. Kalotay is the inventor of Debtcost, a sophisticated computer program that factors in interest rates and other variables to help companies figure out just when to buy back their bonds. With Kalotay a director and manager of its special studies group, Salomon Brothers has won a dominant share of the $70 billion market through which issuers redeem high-coupon bonds and reissue lower-interest debt for underwriting fees. Kalotay's research has paid off especially handsomely in the electrical utilities business, where Salomon refinanced $4.2 billion of debt last year.

Kalotay, a 47-year-old Hungarian who grew up in Canada, earned a Ph.D. in statistics from the University of Toronto in 1968. He has been interested in debt refunding ever since he joined AT&T's finance department in 1974. Kalotay was ready when the next debt crisis hit, having moved to Salomon Brothers in 1981 when long-term corporate rates reached a postwar peak of over 17%.

Lately, with interest rates fairly stable, the rate of bond refunding has been decelerating, from $31 billion in 1987 to an estimated $12 billion for 1988. But the uses for Kalotay's computer program keep multiplying. This year he is using the computer program to manage currency risk. Large companies in Europe have more currency risk than interest-rate risk because their borrowing needs force them to go beyond their relatively small domestic markets. The World Bank, too, which has $86.2 billion of debt outstanding in over a dozen currencies, is now exploring ways to use Kalotay's program.

Kalotay's success stems in part from his own experience as a chess master. Representing Canada in the 1966 World Chess Olympics in Cuba, he recalls being awed by the competitors' dedication. Says he, "I soon realized that these people only did one thing—chess. That's how it is in business today: Pick a topic and become an expert."—**Jack Willoughby**

Lights! Action! Tenants!

Inside the main studio, carpenters are hammering away at the sets for Universal Pictures' next Chevy Chase release, *Fletch Saved.* Outside, real estate developer George Kaufman has a contractor putting up the new headquarters of Lifetime Cabletelevision Network, which just signed a 12-year lease at $3 million annually.

Sounds like a typical day at a Hollywood studio, but this scene is unfolding in New York City's less than glamorous borough of Queens. In the late 1970s the building in question—two subway stops from Manhattan's fashionable East Side—was abandoned, stripped bare by looters and surrounded by littered streets.

In the decayed structure's shell Kaufman saw opportunity. He spent $20 million to refurbish the 5.3-acre studio, which was built in 1920 by a company called Famous Players Lasky, later known as Paramount. It opened for business once again in 1981, this time as Kaufman Astoria Studio.

Now Kaufman is collecting $6 million annually by renting out the place to production companies shooting such TV series as *The Cosby Show.* In addition, movies such as *Ishtar* and Woody Allen's *Radio Days* have used the studio's 12,000-square-foot soundstage.

Serious profit, Kaufman predicts, will come from the 11 acres surrounding the studio, which he controls through a series of partnerships. "There's room here to build another 5 million square feet," he says, meaning offices and more studio space.

Jodi Buren

Developer George Kaufman
Movie magic . . . in Queens.

MICHIGAN IS KNOWN FOR ITS BEAUTIFUL WOODS.

There are two entirely different kinds of woods thriving in Michigan's climate. The lush, beautiful forest kind. And the kind that comes from the hardwood dimension industry. Since 1981, $1.5 billion have been invested in Michigan by forest products companies. ■ Why Michigan? Well, for one thing, this is where the resources are. Donald LeBoeuf, President, Cedar River Lumber Co. in Powers said, "We get about 90% of the timber we use each year here in Michigan." And, of course, there's Michigan's location. Ronald Hees, President, Custom Forest Products, Inc. in Grayling said, "We have good access from Michigan to markets throughout the United States." In addition, Michigan has a trained woodworking labor force who work at competitive rates. ■ There are a lot of other reasons why Michigan works for the wood industry — too many to go into here, however So for more information, please call (517) 373-8495 or write Doug Ross, Director, Michigan Department of Commerce, 525 W. Ottawa, Lansing, MI 48909. And find out why Michigan's woods are so beautiful.

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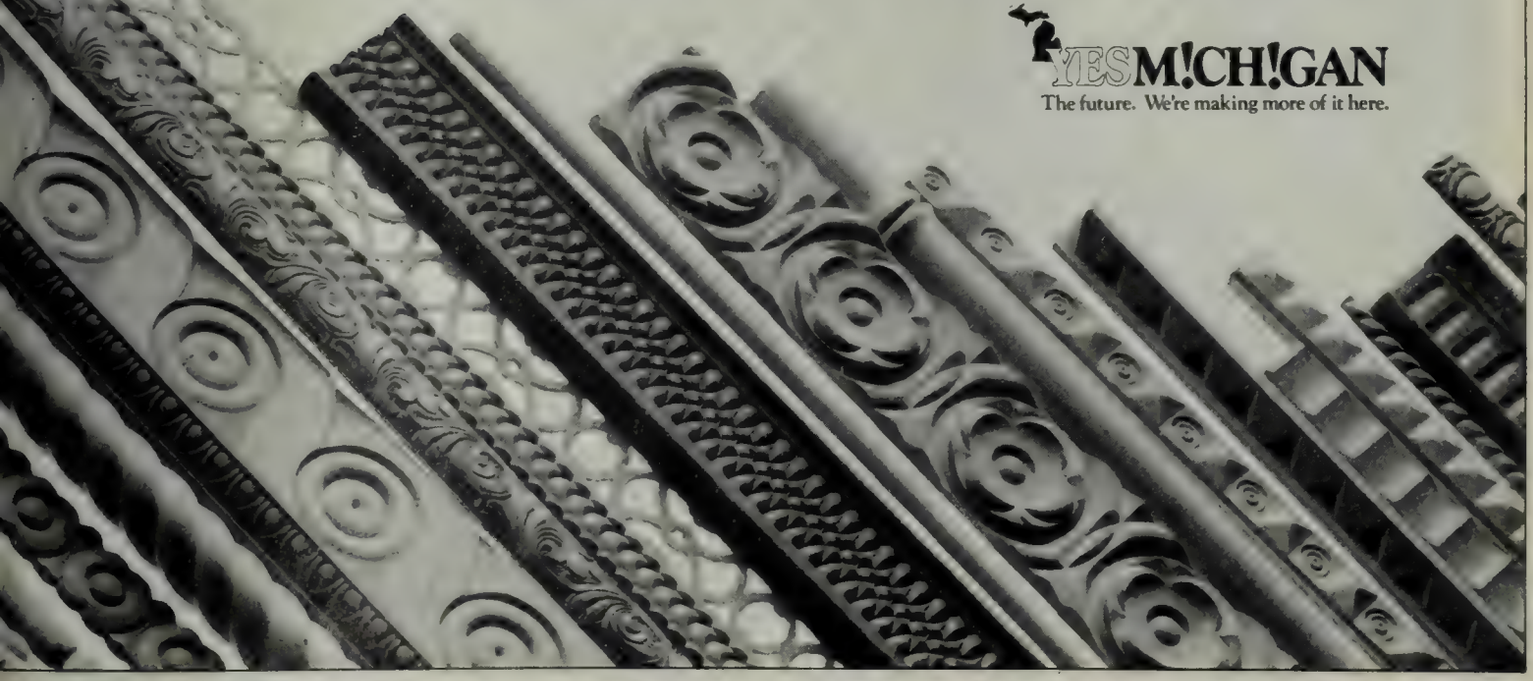

Faces
Behind the Figures

The Queens studio is not Kaufman's first venture into show biz real estate. In 1977 he and a partner bought the Columbia Pictures Building on Fifth Avenue in Manhattan for $10 million and sold it back to Coca-Cola eight years later for around $50 million. Granted, Queens isn't Manhattan, but so what? As Kaufman maintains: "This will become to Manhattan what Burbank is to Beverly Hills."—**Fleming Meeks**

Through a glass brightly

Buried too deep in paperwork to run your own company? Take a lesson from Harold McMaster, genius glassmaker. McMaster, 72, is chairman and chief executive of Glasstech, Inc., the $70 million (sales) private company that he and his associates formed in Toledo in 1971. The company has blossomed largely because McMaster, an inventor and holder of more than 60 patents, keeps his focus on creativity, delegating administrative duties wherever possible. Associates say his inquiring mind remains the key to the company's success. "Harold is our front line," says one. "He's our 7-footer."

The bulk of Glasstech's revenues come from selling McMaster's roller hearth glass furnaces around the world and from license fees on his patents. His machinery, for example, is credited with allowing carmakers to bend the radical curves in auto glass that are increasingly used in new car models.

McMaster's latest interest is solar cells, which collect sunlight and convert it to usable electrical energy. One of his aims is to make such cells competitive with diesel generators, which produce power around the world. Among other possibilities: solar cell roof panels for autos. They could provide power to start up an air conditioner and cool the car before the driver arrives. Glasstech has an experimental phone booth, too, with a solar panel in the roof for power. With a cellular phone and no wires or connections, the phone booth could be plopped anywhere— even in the middle of a desert.

"Research spending can be difficult, especially with the raiders barking at everyone's heels," says McMaster. "But the success of this company has been that we keep plowing our income back into R&D." Ah, the beauty of being a private company. And McMaster doesn't have to worry about cashing out, either. In January he and his associates sold just over half the firm to private investors for some $85 million.—**J.F.**

Glasstech [illegible] Harold McMaster

"Research spending can be difficult, especially with raiders barking."

Luxembourg South

What we need is to make Greece more like Luxembourg," says Stylianos Panagopoulos, governor of the government-controlled National Bank of Greece, "and to do it by 1992." That, of course, is the European Common Market's target date for dropping internal trade barriers, thus exposing the Greek economy to the likes of Germany and France. His "Luxembourg" idea: Revamp Greece's banking laws with an eye to providing the same sort of secrecy and ease of doing business available in free-market Luxembourg. That's a tall order for a socialist-leaning and sometimes corrupt country like Greece.

National Bank of Greece's Panagopoulos

"Give what Beirut gave them."

Right now, the National Bank, which once performed certain central bank functions, has about 55% of the local commercial banking market. It also holds for the government substantial equity stakes in the country's major companies—the result of a wave of nationalizations that followed leftist Andreas Papandreou's election as prime minister in 1981. But socialist ardor is on the wane, it seems, dampened by runaway inflation and economic woes.

Panagopoulos' idea is being taken seriously. "We can serve the Middle East," he says eagerly. "They need a banking center, and they don't have one. Already, they come to Athens because they like it. They buy houses here. They bring their families here. The only problem is they don't like to do business here, so we have to fix that."

Panagopoulos seems unfazed by the obvious hurdles. He says: "We have to give them what Beirut once gave them, before it was destroyed by war—a financial capital for this part of the world."—**Harold Seneker**

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Edited by Laura Saunders

Whether, however and whenever politicians raise taxes on individuals, they are certain to attack corporations with a host of "loophole closers."

Hit list

SOME KIND OF serious tax increase in the next Administration would seem to be inevitable. The federal deficit remains at $157 billion, 3.4% of gross national product. About 70% of the budget goes to Medicare, Social Security, defense and interest, all notoriously difficult to trim. Large chunks of money—say $10 billion and up—can come only from bold strokes like raising corporate and individual tax rates, imposing a value-added tax or raising excises, such as the ones on gasoline, liquor and tobacco. You don't get elected to anything on a tax-increase platform, though, so none of these taxes can be discussed until 1989, at the earliest.

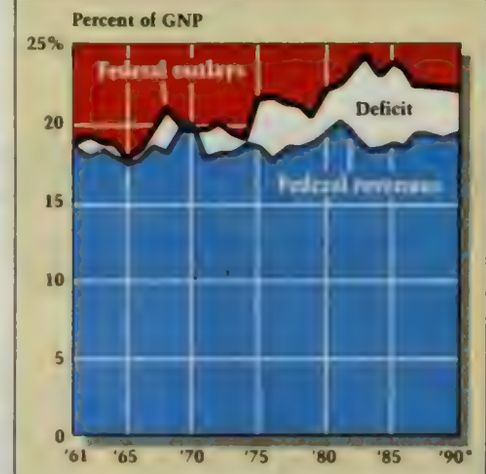
Whatever else lawmakers do, they're certain to go after many corporate "loopholes," most of which are in the code for good reasons. Typically these changes raise only a few hundred million dollars each, drops in the deficit bucket. But corporations don't have a lot of defenders. "They'll round up the usual suspects," says former IRS official Fred Goldberg, now with lawyers Skadden, Arps, "even though the tax code is on the verge of doing serious damage to the capital markets, and has already put U.S. multinationals at a severe disadvantage to foreign competitors."

Here are some likely soft targets, along with estimated revenue gains for 1990. Note that, in many cases, the 1990 revenue is simply an acceleration of tax collections that would otherwise have come in later.

Dividends received deduction. Corporations can exclude from taxable income 70% of the dividends they receive from unconsolidated corporations. At anything less than full exclusion of intercorporate dividends, there is a degree of triple taxation in the tax code. (Colonial Pipeline pays a tax on profits, then pays a dividend to Mobil, which pays another corporate tax; Mobil then pays a taxable dividend to Jane Q. Public, who pays an individual tax.) Reducing the deduction to 50%, as proposed by House Ways & Means Chairman Dan Rostenkowski (D–Ill.), would raise $700 million a year by 1991.

Danger: Revenue enhancements ahead

Expressed as a fraction of the gross national product, the budget deficit has narrowed a bit but still provides a good excuse for an assortment of tax increases.



* Data for 1988 through 1990 are estimates.

Alternative minimum tax. Raising it from 20% to 21% on corporations would yield $500 million without disturbing the normal tax rate of 34%.

Multinationals. Repealing the export source rule, which benefits exporters of manufactures, would raise $700 million (FORBES, *July 11*). Accelerating taxes on U.S. corporations that import from their overseas factories would be good for $200 million.

Cash method accounting. Banning it for large nonfarm businesses would accelerate $300 million of revenue. This would hit large law and accounting firms hard: They would pay income tax when a client is billed, not when the bill is collected. The cash method narrowly escaped the hatchet in 1986.

Completed contract accounting. Banning this accounting method would push $1.7 billion to $2.2 billion of revenue, mostly from defense contractors, ahead into tax year 1990 *(see story on facing page)*. Although the proposal has come up before, the defense procurement scandals will make it harder to resist this time.

Advertising deductions. The theory is that an immediate deduction for advertising, including advertising that builds long-term name recognition, is some kind of loophole. Forcing companies to amortize 20% of their advertising costs over four years would accelerate $3.3 billion of tax collections.

LIFO. Eliminating last-in-first-out accounting for inventories would accelerate $4.7 billion of tax revenue. Alternatively, a lesser amount could be raised by charging interest on LIFO reserves.

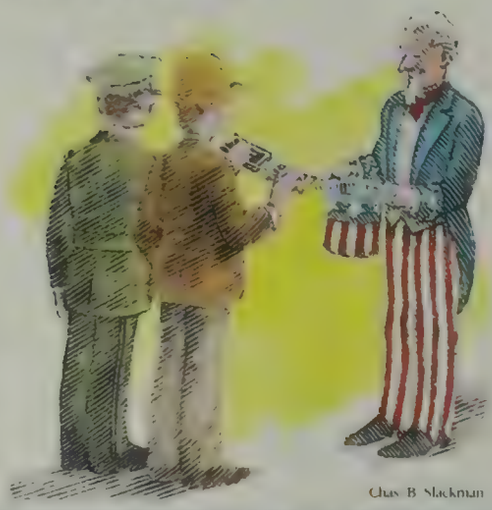
Insurance. Rostenkowski was stung by the recent defeat of his efforts to raise taxes on insurance products, and is out for revenge. It might come partly in the form of higher taxes on insurance companies. Including life insurance reserves in the corporate minimum tax could bring in an extra $100 million. Denying reserve deductions for new life insurance and annuity contracts would raise an estimated $400 million.

Nickels and dimes. Limiting depreciation deductions that a business can take on luxury automobiles is estimated to raise $200 million. Extending the depreciable lives on leased items could raise $200 million. Requiring companies to use the income forecast method of amortization—an accounting nightmare—would raise less than $50 million.

One way or another, lawmakers will find ways to raise taxes on business, even if they don't raise corporate tax rates. According to Ernst & Whinney's David Berenson, the tax writers are committed to raising the corporate share of all tax revenues to 25%, where it was for most of the 1970s, from the current 21%.—L.S.

Defense contractors face a multibillion-dollar profit pinch from Congress.

Cash now?



By Penelope Wang

A TAX LAW CHANGE now wending its way through Congress is likely to cost America's top ten defense contractors billions of dollars over the next five years. It also threatens hundreds of small construction companies.

The change, which could take effect as early as this year, would completely stop companies from deferring taxes on profits earned on multiyear contracts. Under an earlier accounting standard, in force until two years ago, all companies with long-term contracts could defer taxes until the contract was completed. The reasoning behind this "completed contract" method: Most contractors incur high costs and reap scant profits until a project nears completion, so in theory the rule protected them from paying taxes on nonexistent income. But deferred taxes snowballed, particularly in the defense industry.

Though some defense contracts, especially those for major weapons systems, sometimes remain open for 15 or 20 years, many of them begin generating income after, say, 8 years. Thus some major contractors, such as General Dynamics, paid little or no taxes between 1975 and 1985. That triggered provisions to the Tax Reform Act of 1986 and a later amendment in 1987. Those changes forced companies in most cases to adopt a "percentage of completion method," paying an estimated tax on the percentage of the project completed, based on costs incurred. Thus, if a contractor spent 10% of its budget for a new weapons system, the contractor would pay taxes on 10% of the estimated income from the project. The tax bonanza from such a change: an estimated $12.2 billion in added revenues over a five-year period.

Now comes the final assault. The House Ways & Means Committee, led by Representative Dan Rostenkowski (D–Ill.), last month approved a further restriction that would totally eliminate the completed-contract method, raising a further $2.4 billion in tax revenues over three years. The new provision is expected to reach the House floor soon, where it will likely pass. The provision will probably meet some stiff opposition in the Senate. But with many defense contractors accused of paying bribes to win lucrative Pentagon contracts, sympathy votes will be hard to come by.

The potential damage is big. According to Howard A. Rubel, aerospace analyst at C.J. Lawrence, the ten major aerospace firms have amassed a deferred tax liability of $8.3 billion. The new accounting change, coupled with earlier changes and the fact that many contracts are expiring, means about 80% of that tax bill—or $6.6 billion—will come due by 1993. Yet cash on hand for those ten companies amounts to only $5.6 billion.

The outlook is especially bleak for highly leveraged companies. McDonnell Douglas, for example, has a $1 billion deferred tax liability, a $1.6 billion debt load and a cash kitty of only $53 million. Comments Rubel: "You're hard-pressed to see how they'll do anything with shareholders' money but pay Uncle Sam back taxes." Two other relatively highly leveraged defense contractors: Lockheed and Grumman *(see table)*.

The last thing defense contractors needed was another problem. But that's what they've got.

Also affected will be the construction industry, which regularly defers huge tax bills on long-term contracts. Smaller concerns will be at a special disadvantage because they generally have limited working capital and little borrowing capacity.

To hear the construction association tell it, small building firms have been unfairly snagged in the tax net set for defense contractors. Denton Hammond, construction industry expert at the national accounting firm Grant Thornton, agrees. "Construction firms have not been the ones deferring profits for years," he says, noting that the average construction project lasts only nine months. Moreover, each project entails unique costs, whereas many defense contracts are renewals. "By the 200th fighter jet, you know what your costs and profits are," says Michael Repass, senior manager at Price Waterhouse. "But a builder doesn't really know a bridge will be profitable until it's completed."

The construction lobby is still fighting to keep the completed-contract method of deferring taxes. But Congress seems unlikely to listen. ■

Trouble on three fronts

As Pentagon spending began to slow in 1987 many of the ten biggest defense contractors saw their debt increase and cash dry up. Now, deferred taxes are coming due, too.

Company	Cash on hand*	Deferred taxes*	Debt/equity ratio (%)
McDonnell Douglas	$53	$1,027	53.6%
General Dynamics	178	927	26.7
General Electric	1,834	3,720	34.0
Lockheed	40	1,147	59.4
General Motors/Hughes	731	638	10.3
Raytheon	90	275	26.8
Martin Marietta	154	541	38.8
United Technologies	424	302	55.9
Boeing	3,435	1,447	5.4
Grumman	138	114	100.6

Figures as of 12/31/87. *$Millions
Sources: Company reports, C.J. Laurence; Prudential-Bache.

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Partial Contents

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Attila the Hun
Sir Francis Bacon
P.T. Barnum
Busby Berkeley
Blackbeard the Pirate
Alfred S. Bloomingdale
Margaret Bourke-White
Diamond Jim Brady
Lenny Bruce
Lord Byron
Caligula
Al Capone
Catherine the Great
Claudius
Cleopatra
Montgomery Clift
Christopher Columbus
Adelle Davis
James Dean
John Dillinger
The Duke of Windsor
Isadora Duncan
Amelia Earhart
King Edward II
King Edward V
"Mama" Cass Elliot
William Faulkner
Archduke Franz Ferdinand
W.C. Fields
F. Scott Fitzgerald and Zelda
Jim Fixx
Henry Morrison Flagler
Benjamin Franklin
Sigmund Freud
Clark Gable
Judy Garland
King George V
George Gershwin
Euell Gibbons
Hermann Goering
Ulysses S. Grant
D.W. Griffith
Dag Hammarskjöld
Mata Hari
Jean Harlow
Ernest Hemingway
Jimi Hendrix
Wild Bill Hickok
Jimmy Hoffa
Billie Holiday
Buddy Holly
Ivan the Terrible
Jesse Woodson James
Thomas Jefferson and John Adams
Casey Jones
Janis Joplin
Princess Grace (Kelly) of Monaco
Bruce Lee
Vivien Leigh
Carole Lombard
Huey Long
Jayne Mansfield
Senator Joseph McCarthy
Glenn Miller
Sal Mineo
Margaret Mitchell
Marilyn Monroe
Jim Morrison
Wolfgang Amadeus Mozart
Audie Murphy
Ramon Novarro
Thomas Paine
Charlie Parker
Lieutenant General George S. Patton
Bishop James Pike
Pontius Pilate
Jackson Pollock
Cole Porter
Francis Gary Powers
Elvis Presley
Sir Walter Raleigh
Paul Robeson
John D. Rockefeller III
Nelson Aldrich Rockefeller
Will Rogers
Mark Rothko
Babe Ruth
Bugsy Siegel
Sitting Bull
Bessie Smith
Dylan Thomas
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Rudolph Valentino
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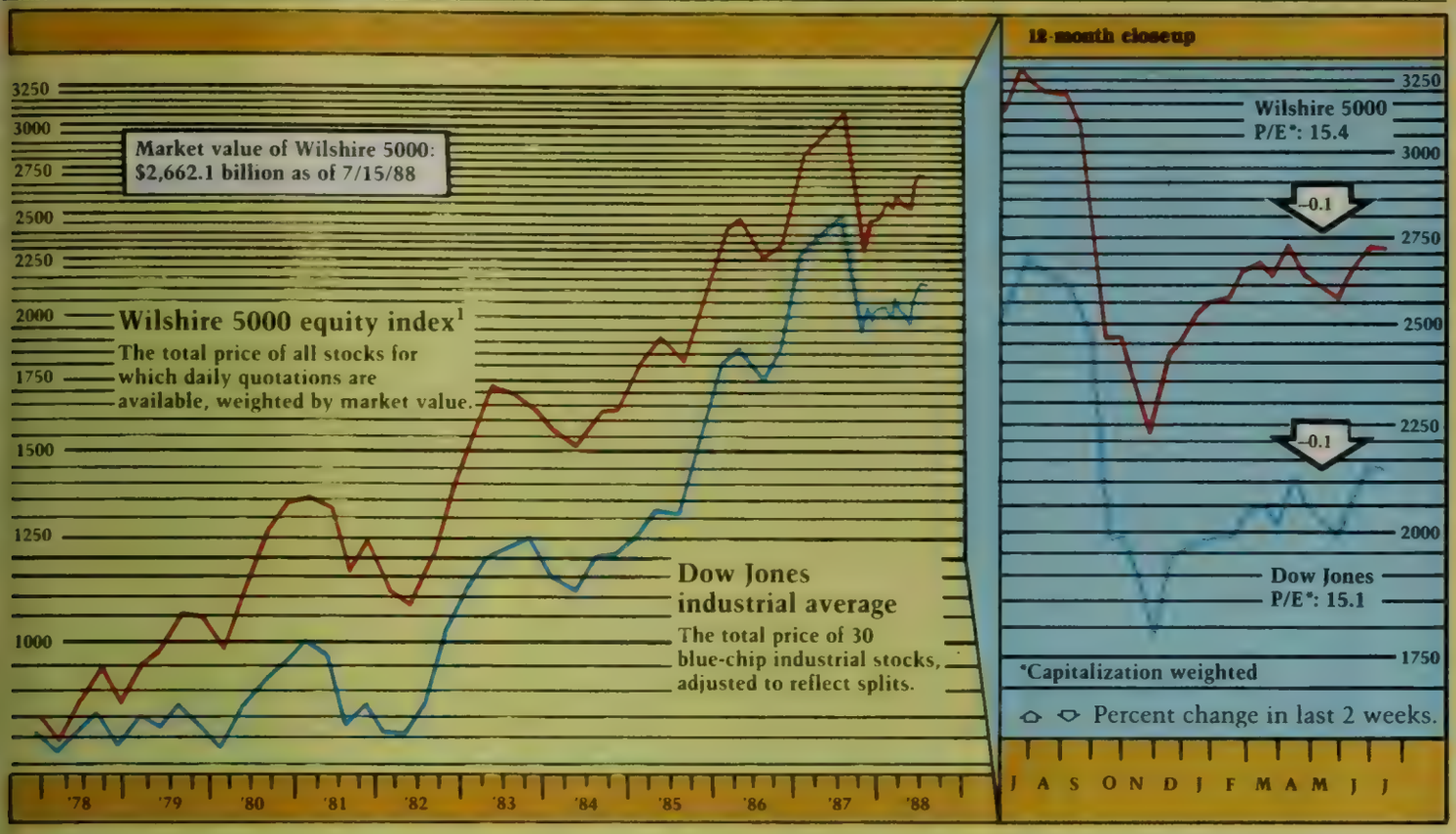
SIMON AND SCHUSTER
A GULF • WESTERN COMPANY

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Have we been here before? The Dow pierced 2,100 for the first time in late January 1987, on its way to a peak of 2,700. Eighteen months later the Dow is again hovering around 2,100. Someone buying today is perhaps looking for a second climb up to 2,700. But a contrary view is well argued by G. Stanley Berge, a managing director at Tucker Anthony & R.L. Day: "The slowdown in the growth of money, the fragile banking system and the ever increasing debt burden cannot go on for much longer." Berge predicts a 400-point drop in the Dow by Christmas.

A 37-point rally during the final three trading days of the two weeks ended July 15 left the Dow with a 0.1% loss. The overall market as measured by the Wilshire 5000 also fell 0.1%. The Nasdaq composite of 4,635 stocks was unchanged. Year to date, however, the smaller o-t-c stocks continue to outdistance the larger-capitalization companies. The Nasdaq is up 19.4%, versus a gain of only 9.8% for the Dow and 10.4% for the Forbes Sales 500.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	0.7	0.6	1.2	0.5	1.2	2.0
in last 52 weeks	–12.4	–13.0	–15.2	–13.0	–12.5	–9.1

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	0.3	4.1	3.6	1.8	1.1	2.8	2.2	4.6	5.4	1.6	0.7	2.1
in last 52 weeks	–7.6	16.4	19.3	4.5	–4.0	0.2	0.6	22.2	18.8	2.9	–3.6	10.9

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

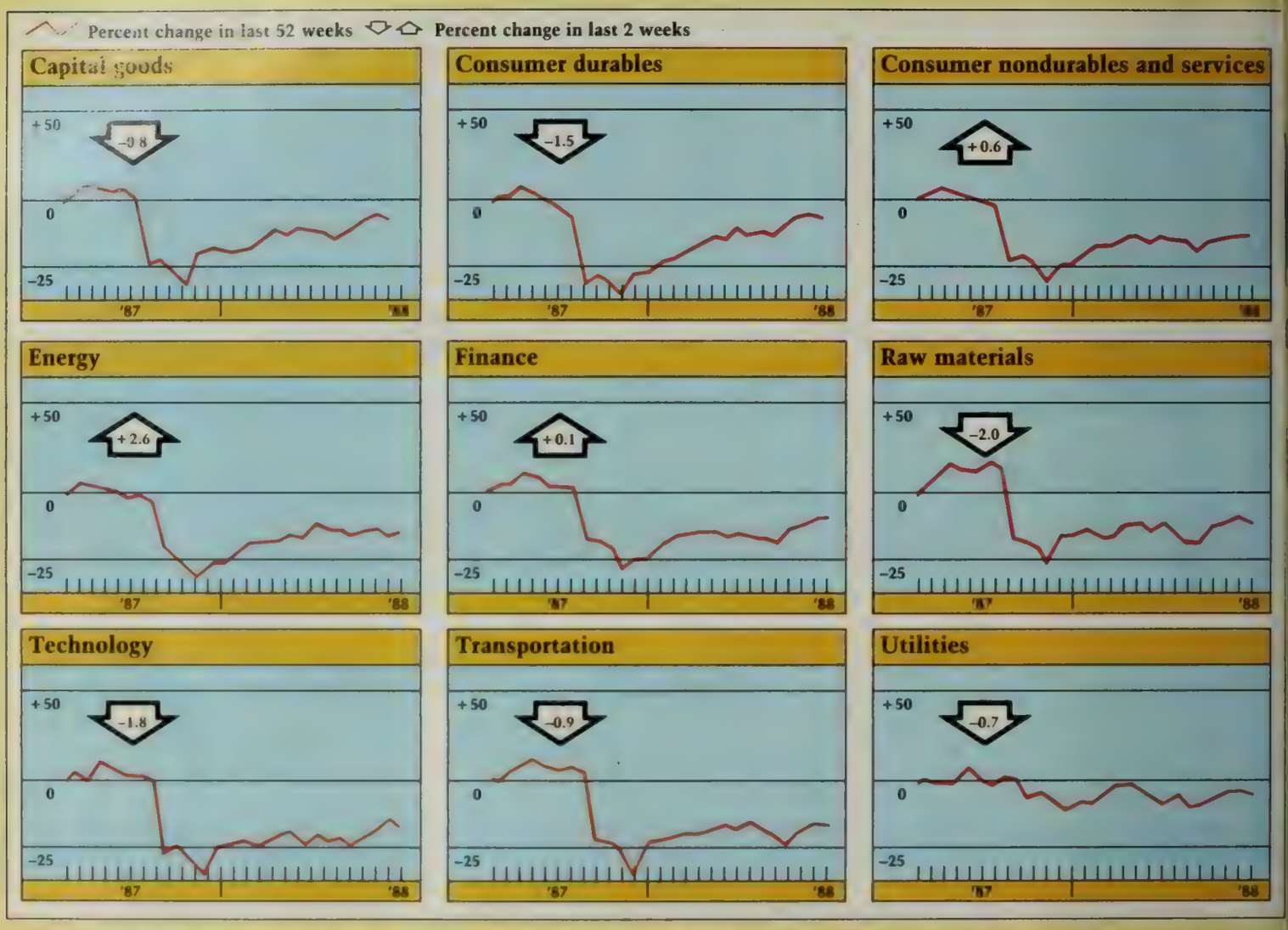
Note: All data for periods ending 7/15/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Earnings moves. The market may appear to be in the summer doldrums, but certain stocks moved sharply when quarterly earnings were released. For example, Wheeling-Pittsburgh, the eighth-largest U.S. steel producer, reported second-quarter earnings of $7.73 a share, versus $4.10 a year ago. Wheeling, which is in Chapter 11, closed at 24⅛, up 62% for the two-week period.

In contrast, Genentech reported second-quarter earnings that were unchanged from the previous quarter, and the stock dropped 12%, to 24. Genentech, once a Wall Street favorite, has now lost over $3 billion in market value from its 1987 high, while its price-to-sales ratio dropped from 39.5 to 8.6. That doesn't make Genentech a bargain; the market's price-to-sales ratio is 0.73.



What the Analysts Think

Changing perceptions. One year ago the trailing P/E for the Forbes Sales 500 was 19.1. Now it's 14.3. That makes the earnings yield (earnings/price) for the group 7%. The higher 1989 earnings predicted by Wall Street analysts give the Sales 500 an estimated 1989 market multiple of 9.9, for an earnings yield of 10%.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.69	14.3
1988 estimates	3.55	10.9
1989 estimates	3.92	9.9

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Raw materials	$3.04	10.6	0.66%	1.40%
2	Capital goods	2.59	15.1	0.25	0.70
3	Consumer durables	4.41	11.7	0.16	1.41
4	Utilities	2.40	10.0	0.06	–0.03
5	Technology	2.87	12.3	–0.08	–0.15
6	Energy	3.07	12.4	–0.15	0.31
7	Consumer nondurables	2.48	13.1	–0.24	–0.47
8	Transportation	2.44	11.3	–0.33	–1.42
9	Finance	3.39	8.4	–1.00	–1.46

Earnings projections are capitalization weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

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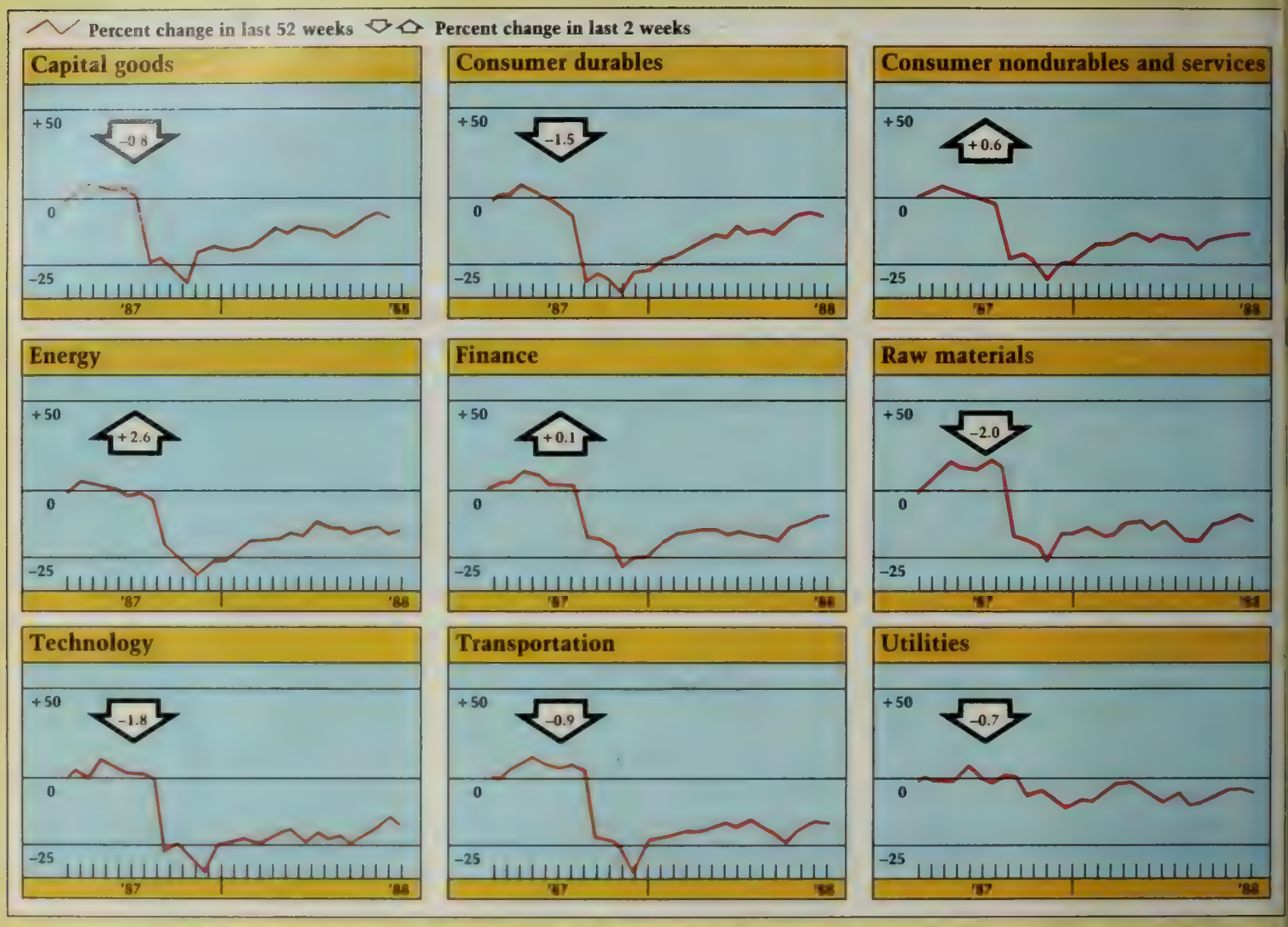
Where the Action Is

Earnings moves. The market may appear to be in the summer doldrums, but certain stocks moved sharply when quarterly earnings were released. For example, Wheeling-Pittsburgh, the eighth-largest U.S. steel producer, reported second-quarter earnings of $7.73 a share, versus $4.10 a year ago. Wheeling, which is in Chapter 11, closed at 24⅛, up 62% for the two-week period.

In contrast, Genentech reported second-quarter earnings that were unchanged from the previous quarter, and the stock dropped 12%, to 24. Genentech, once a Wall Street favorite, has now lost over $3 billion in market value from its 1987 high, while its price-to-sales ratio dropped from 39.5 to 8.6. That doesn't make Genentech a bargain; the market's price-to-sales ratio is 0.73.



What the Analysts Think

Changing perceptions. One year ago the trailing P/E for the Forbes Sales 500 was 19.1. Now it's 14.3. That makes the earnings yield (earnings/price) for the group 7%. The higher 1989 earnings predicted by Wall Street analysts give the Sales 500 an estimated 1989 market multiple of 9.9, for an earnings yield of 10%.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.69	14.3
1988 estimates	3.55	10.9
1989 estimates	3.92	9.9

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Raw materials	$3.04	10.5	0.66%	1.40%
2	Capital goods	2.59	15.1	0.25	0.20
3	Consumer durables	4.41	11.7	0.16	1.41
4	Utilities	2.40	10.0	0.06	–0.03
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Statistical Spotlight

Some stock-picking screens look for one strong suit. Here's one screen that looks for several fairly good ones.

Well-rounded stocks

By Evan Sturza

If the market were as cheap as it was a decade ago, you could make yourself a nice list of stocks to buy with some pretty stringent selection criteria. One old favorite of the value school is the triple sixes formula: stocks trading at no more than 6 times earnings, at 60% or less of book value and with yields of at least 6%. Alas, there aren't bargains like that sitting around these days. How, then, to find values—or at least relative values—in an expensive market?

Brian Klapper, a recent Cornell graduate who has expanded on the "generic stock" theme created by one of his professors, Avner Arbel, has come up with a novel approach. Klapper first screens through his database of 3,300 companies with much looser criteria. This way, companies with one or two ratios that are out of line are not rejected outright. That's because Klapper found that many great investments would have been missed by tight stock screens. In his preliminary screen, for instance, he eliminates companies with debt greater than 50% of equity and 12-month earnings growth rates of less than 15%. That still leaves about 25% of the whole collection. Then he scores the passing companies on the basis of these and other ratios.

The scoring enables Klapper's Ithaca, N.Y. investment firm, Generic Stock Investment Service, to customize the screen. For instance, he can create a bias in favor of breakup value and away from growth. Postcrash picks include Roper, Adams Millis and Welbilt, all the subject of tender offers. He claims a 19.3% performance for the first half of the year, against 10.7% for the S&P 500 (in neither case including dividends).

Klapper's scoring begins by comparing such variables as the price/earnings ratio, yield and earnings growth rate to those of the average stock in, say, the S&P 500. On each item companies are scored from 1 (best) to 10 (worst). This is done for eight or ten variables and then the scores are added for each company.

By this system the best companies

A little of everything

Instead of picking just one criterion, Generic Stock Service ranks companies on half a dozen or more to come up with a composite ranking. Stocks with the lowest scores are supposed to be the best buys.

Company/business	Recent price	Price to earnings	Price to book value	Price to cash flow	Price to net working capital	Current ratio	Quick ratio	Return on equity	Debt to equity	Times interest coverage	Composite rank
BancTec/check processing	8	6.4	1.0	4.5	2.4	2.9	1.8	18	10%	30	30
Scientific-Atlanta/antennas	13⅞	10.7	1.5	8.5	1.9	4.4	2.4	14	1	57	37
Cherokee Group/apparel	11⅛	13.2	1.9	11.9	2.4	3.8	2.2	21	3	35	40
Tecumseh Prods/compressors	149	10.8	1.4	7.7	2.6	3.2	2.3	13	2	70	41
Plessey PLC/electronics	28½	9.0	2.1	6.7	2.7	2.2	1.6	22	14	26	44
Curtiss-Wright/aerospace	52	9.3	1.1	6.1	2.3	4.1	3.3	13	21	12	44
Andrew/antennas	17	10.1	1.1	7.1	2.3	3.9	2.2	11	14	13	45
Altos Computer/computer eq	9¼	9.6	1.0	6.8	1.8	3.5	2.5	12	22	11	46
Optical Radiation/vision care	13¾	10.8	1.1	8.3	2.4	3.5	2.9	11	13	16	47
Crystal Brands/apparel	24½	16.0	1.0	10.4	1.9	5.0	2.7	7	25	9	55
Interco/furniture, shoes	44¾	12.7	1.4	7.7	2.6	3.6	1.4	11	23	9	56
Huffy/bicycles	13⅝	10.0	1.4	7.5	2.4	1.6	1.0	15	21	8	65
S&P 500 averages		13.5	3.8	6.7	NA	1.4	1.1	16	41	3	99

NA Not available

Source: Generic Stock Investment Service

get the lowest total scores. But it is still up to the human observer to eliminate companies that look too good to be true. When Coated Sales and Crazy Eddie showed up as screaming buys, Klapper figured something was wrong. It turned out that both companies had exaggerated their past performances.

In bear markets Klapper gives a higher weighting to value items such as yield and price to book value. In bull markets more emphasis will be placed on earnings and sales growth rates. Right now Klapper feels that the market is extremely volatile, which is why he is putting extra emphasis on balance sheet quality.

We tested the Klapper system, giving the most weight to a company's net working capital. Other measures of balance sheet quality that figure in the ratings are current ratio (current assets divided by current liabilities), quick ratio (cash and receivables divided by current liabilities), debt/equity ratio (long-term debt divided by stockholders' equity) and interest coverage (earnings before interest and taxes divided by interest expense).

BancTec, a maker of computerized systems for processing checks, came out looking the best. Down from a 1982 high of 35, BancTec sells for 6.4 times trailing 12-months' earnings of $1.24, which were up a robust 75%. ■

The Funds

All money market funds look alike—until you look at their annual expense ratios.

Money costs

By Ruth Simon

SEVEN YEARS AGO, when short-term money rates were in double digits, shopping for the best-paying bank account or money fund was a national pastime. Now, with taxable money funds paying an average 6.7%, investors may have forgotten how to shop around.

That's a mistake. The top-yielding funds, Vanguard Money Market Reserves Prime and Flex-Funds Money Market Fund, yield about 1.5% more than the worst performer, IDS Strategy Fund/Money Market Prime. That's a $300-a-year difference for someone with $20,000 of cash to invest.

Why the big difference? In a word, expenses. "The second-highest-yielding money fund and the worst-yielding money fund have the same gross returns," says William Donoghue, whose Holliston, Mass.-based Donoghue Organization tracks 491 money funds. "The difference is the IDS money fund is just greedy on their management fee."

IDS Strategy ran up expenses at an annual rate of 1.77% of assets during the first quarter of 1988. That includes 0.54% as a management fee, 0.93% for a 12b-1 plan that permits the sponsor to take shareholders' money to cover its own marketing expenses, and the rest for overhead—legal, accounting and so on.

Better shop around

Steep expenses can cut the yield of a money fund sharply. So can a tax exemption.

Fund	12-month yield[1]	Expense ratio[2]
Vanguard Money Market Reserves Prime	7.04%	0.37%
Flex-Funds Money Market	6.94	0.26
Selected Money Market General Portfolio	6.09[3]	1.15[4]
IDS Strategy Fund/Money Market Prime	5.58	1.77
Average for taxable money funds	6.44	0.70
Calvert Tax-Free Reserves Money Market	4.81	0.63
Strong Tax-Free Money Market	4.81	0.97
Franklin Calif Tax-Exempt Money	4.58	0.49

[1]As of 5/31/88. [2]Annualized, based on expenses for first-quarter 1988. [3]For 6/88. [4]As of 6/30/88.
Sources: The Donoghue Organization, IDS and Selected Money Portfolio.

Compare the IDS expense ratio to the 0.37% for Vanguard Prime and 0.26% for Flex-Funds. The latter cuts its management fee as needed to keep the fund's yield competitive.

Careful shoppers look at both the net yield and the expense ratio. Some funds compensate for higher expenses by reaching for yield—buying Eurodollar paper from somewhat weaker banks, for example. Although the risk of capital loss in almost any money fund is small, it cannot be ignored, and the tradeoff of higher expenses and higher risk is no bargain.

Another risk is the possibility of a rise in interest rates. Funds guard against this by keeping maturities of their investments very short. The only fund to suffer a capital loss (a drop in share value below the intended $1) was First Multifund for Daily Income, which got caught with a lot of long-term paper when interest rates climbed in 1978. But the fund's average maturity was around 620 days, making it more like an intermediate-term bond fund than a money market. Today the average maturity of money funds is just 35 days.

Next question: Would you be better off with a tax-free money fund? Probably not much. Tax-free money funds pay about 2% less. The top federal tax bracket, however, is only 33%, which costs about two percentage points of yield. Money markets exempt from both state and federal taxes generally don't make sense, says Donoghue; the Franklin California Tax Free Money Market Fund is an exception.

A final consideration is convenience. Funds differ in their minimum investment, minimum check size, maximum checks per month, and fees for wire transfers to bank accounts. ■

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As bond creditor of a utility, you may be better off with a claim on only one asset than a claim on all of the assets.

HOW SAFE ARE SLOBs?

By Ben Weberman

The open-ended mortgage, developed by utility conglomerator Samuel Insull in the 1920s, was an admired innovation in its day. The idea was that the holder of a mortgage bond had a claim on all of the electric company's plants, including plants not yet built. By offering better security to investors, the utility got by with a lower interest rate.

Sam Insull, however, didn't have to contend with the financial fallout from nuclear plants. And so financiers have come around to another innovation, secured lease obligation bonds, a.k.a. SLOBs. A SLOB is, in one sense, a very old-fashioned mortgage bond, one attached to just one asset. A plant is purchased with capital from a bond issue and leased to the utility. Lease payments provide the cash to service the bonds. If the utility stops paying on the lease, the SLOB holder becomes an unsecured lender to the utility. "Therefore, a SLOB theoretically can never be a worse credit than a debenture of the same company," says Krishna Memani, analyst at Morgan Stanley.

Like most financial innovations, this one has a little something for everyone. The issuer of the SLOB gets the debt off its balance sheet. Investors usually get better protection against premature calls. And if the utility's taxable income is already low, it may put depreciation deductions to better use by placing ownership of the plant in the name of a big taxpayer, such as IBM or General Electric. Oh, and the complexities of all this mean that the underwriters get fatter fees.

For the bond buyer, credit quality is key. Some SLOBs are legally backed only by the lease; some are protected by a lien on the plant as well. SLOBs usually get a credit rating a notch lower than that of the utility itself, since they constitute no more than a junior obligation of the utility. On the other hand, narrowing the mortgage bond's security to a single plant may, depending on the circumstances, actually strengthen it. Now the investor isn't pooled with a lot of other creditors in a utility that could sink into nuclear bankruptcy. If the plant is, say, a coal plant, and can deliver electricity at competitive prices, it may even be able to sell its output elsewhere if the sponsoring utility defaults. (Of course, if the SLOB is on a nuclear plant, the lease arrangement merely aggravates the bondholder's risks.)

Electric utilities were once among the safest of credits, but the industry has had more than its share of problems of late. Companies that think they have a solid financial position spend too much building a nuclear plant. Or they fall into the hands of an unsympathetic rate-making authority that decides, with hindsight, that the plant should never have been built. Public Service of New Hampshire 15s of 2003, which traded as high as 112 last year, are now at 47. Long Island Lighting 11½s of 2014 bottomed at 88½ earlier this year before Governor Mario Cuomo gallantly decided to scrap Shoreham and have ratepayers, taxpayers and stockholders eat the $5 billion plant. The bonds have since recovered to 99⅜.

Don't underestimate the importance of early calls in the comparison between conventional utility bonds and SLOBs. A call snatches away the investor's bond just as he is beginning to enjoy the benefit of a high coupon in an era of declining interest rates. The risk of what I have characterized as bad-faith calls has become a serious one in recent years. Many SLOBs respond to this problem of bond investing by giving the bond buyer tougher protections against early redemptions.

One trick that utilities have used with conventional bonds is to sell and then lease back a plant, and to use that sale as an excuse for refinancing the bonds that built the plant. That can't happen as easily with a SLOB, where a lease is in effect from the beginning. As a rule, SLOBs have absolute call protection for five years, while conventional mortgage bonds have protection only against being refunded—a protection that sharp-penciled lawyers can render meaningless.

Caution: Investors should distinguish between a SLOB and a LOB, which is an unsecured lease obligation bond. The latter has no lien on the generating plant in the event the lease payments cease. In the LOB category fall the First PV Funding Corp. 10.3s of 2014, from Public Service of New Mexico, and the El Paso Funding 10⅜s of 2011, from El Paso Electric.

So what's a good buy among the $5 billion of SLOBs outstanding? The Cleveland Electric/Toledo Edison, CTC Mansfield Funding 11⅛s of 2016, financing a coal-fueled generator, trade at 99⅝ to yield 11.2% to maturity. The DKU Funding 11.95s of 2016, from Duquesne Light, also have a high credit standing and trade at 104¾ to yield 11.4% to maturity. These yields are around 35 basis points better than those on first mortgage bonds of the parent companies.

On the whole, says Eunice Reich, in utility bond research at Merrill Lynch, SLOBs "are priced generously relative to first mortgage obligations and to Treasurys." ■

Ben Weberman is a contributing editor of FORBES *magazine.*

Foreign money managers are puzzling—and puzzled—over the U.S. presidential candidates.

CAN'T GET NO SATISFACTION

By Susan Lee

Say you have a billion dollars of foreign money to invest, mostly in the U.S. And say you feel that the coming presidential election is crucial to the economic outlook and, thus, to the direction of the market and your portfolio returns. And—here's the hooker—then say the choice is between George Bush and Michael Dukakis.

Well, Richard Katz of N.M. Rothschild speaks for most foreign money movers when he says, "We are extremely tentative irrespective of who is going to win because the policies of both candidates are so weakly defined. It's all very tenuous, and we're reading between some very faint lines."

The biggest cause of uncertainty is what impact a new administration will have on the dollar. Here, foreign money managers are focused on what happens to the budget deficit. The hope is for what one manager calls a virtuous circle: If the deficit is reduced, the dollar will remain firm and foreign money will come into the bond market, yields will go down and stock prices will go up. The fear is that there'll be, instead, a vicious circle where the deficit widens, the dollar goes down, foreign money goes out of the bond market, yields go up and the equity market takes a dive.

What would reassure these money runners on the deficit? Few think that raising taxes would be the answer. Instead, they are mostly concerned with the spending side. Milton Ezrati at Nomura Capital Management says, "Even if the Democrats raise taxes to close the deficit, the anxiety is that they will spend the extra tax revenue. The real issue is still spending."

While that view argues in favor of Bush—who has ruled out tax increases and talked about a spending freeze—Dukakis' antidefense talk has attracted interest. The feeling is that Dukakis would reduce defense spending either by bringing some troops home from Europe or by making Europe share more of the burden. "That might be unsatisfactory for us, but it would be good news for the dollar and the deficit," says Katz. (Another plus for the Democrats: Initial fears that Jackson would emerge as a powerful force have abated, thus giving foreign investors more confidence.)

Nonetheless, there is a preference for Bush because he's better known abroad. More than one manager repeated to me the old saw about the devil you know being better than the devil you don't. Most managers feel that the market will rally on a Bush victory. Rudolf Heinz of Deutsche Bank's Capital Management International says flatly that if it looks like Dukakis is going to win they will yank at least 10% of their money out of the U.S. Bush, he says, will be more positive for the dollar.

Uncertainty about the election and the dollar aside, foreign money managers are feeling quite cheerful about the U.S. economy. (Like their U.S. colleagues, few expect a recession before 1989—at the earliest.)

John Troiano of Schroder Investment Management says his pension money is overweighted in the U.S. because "We do believe things will get better for the dollar and there will be continued improvement in corporate profits." He favors technology, capital goods and financial stocks. He thinks ITT looks very interesting: "It has a huge cash flow, is terribly out of favor and not understood on Wall Street. ITT is focused on shareholder value, so we will see continued share repurchase, dividend hikes, further disposals to raise asset value," he says.

Many money runners are following Ezrati's strategy of investing in companies benefiting from the undervalued dollar—reindustrialization stocks. "Even if the U.S. has a recession," he says, "reindustrialization represents a long-term, major shift in the economy." He is hot for Allied-Signal, which has a big aerospace element profiting from the life cycle of the world airline fleet.

Other names I hear are Bethlehem Steel, Westinghouse and Boeing. There are also some less well-known ones: Square D Co., a maker of electrical and electronic products; Eaton, a handmaiden to the trucking industry; and Illinois Tool Works, a manufacturer of industrial and specialty equipment.

J. Richard Walton of Morgan Grenfell says that basically his portfolio reflects many special situations. He has a big position in Fluor Corp., the engineering and construction service company with a natural resource component. And he's up for Ogden Corp., which designs, builds and operates solid-waste recovery plants and recently entered the hazardous waste incineration business. He also likes two specialty steel companies—West Virginia Steel and Chaparral.

As the election gets closer, most money movers expect the market to become more volatile. There's lots of liquidity and, as one manager admits, big managers, European and Japanese alike, have a herd instinct—"they all try to crowd through the same door at the same time." In other words, expect the obvious from foreign money—a lot of sloshing around as managers try to psych out the candidates and their chances for election. ■

Susan Lee is senior editor of Forbes magazine.

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Partnership for a Drug-Free America

Some managements would capitalize hot air if they could—and their auditors would allow it. Here's how to spot bookkeeping that hides more than it reveals.

THANKS, DAD

By Kenneth L. Fisher

I learned a lot about the investment business from my father, Philip Fisher, described by FORBES just last year as "one of the seminal figures of modern investment thinking." When I worked for him in the days before I struck out on my own, he drummed a great lesson into my head. "No, no, no!" he insisted. "You just don't understand. When you read an annual report, start in the back, with the footnotes to the financials. Then move forward."

The years since have again and again shown me the wisdom of his advice. The back of the report, the footnotes, is where they hide the bad stuff they didn't want to disclose, but had to. Whether it's in a limited partnership, an initial public stock offering prospectus or just an annual report, they bury the bodies where the fewest folks find them—in the fine print.

When I worked for dad, we analyzed companies to see how reflective their accounting was. You do that in the footnotes. We liked conservative ones because emerging problems were easier to understand and seen faster than with their looser brethren. It seems creative accounting is used mostly by those inclined to hype images of phony profits or to hide real losses. For us, when warnings popped up among the crazy accounters, it always spelled disaster. The few times we ignored the warning, we were sorry.

One time it was *Amrep* (9)—1972. The world was crazy for recreation and retirement. Amrep had both—through Florida land development. It also had gimmicky accounting and sales schemes. We ignored the gimmicks because we bought the "story." We got killed in the stock. They finally put Amrep's chief executive, Howard Friedman, in jail. He has been out for years now, and ironically is back heading Amrep.

This was an extreme case, but there were others where we went into a stock—in spite of the red lights that flashed in the footnotes. Take *Measurex* (34). It is a good outfit, but in 1973 it used mirrors to boost sales, profits and return on investment by getting its venture capital backers to create a separate third-party leasing firm for sweetheart, low-interest financing for Measurex customers. Million-dollar sales on leases at below-market interest rates didn't really reflect the events. But Measurex booked the sales, showed phony profits, and the stock rose—and then collapsed. I have since made good money buying Measurex—but not when its financials were inflated.

I repeat: Always read the fine print. And read Abraham J. Briloff's *Unaccountable Accounting* (Harper & Row). It's a classic for anyone wanting open eyes. In the bear market following 1972 his unheeded lessons cost investors dearly. As Briloff made clear, success includes remembering that just because a company adheres to "general accepted accounting principles" (GAAP), that doesn't mean its audited financials even resemble reality.

Also well worth reading—but ultraexpensive—is *Behind the Numbers*, a nitpicky accounting newsletter that is put out by David W. Tice, a Dallas-based CPA and a chartered financial analyst. He rebuilds financial statements to show how the numbers would look if stated more conservatively.

He shows how some big and respected firms realistically aren't earning even half what they report. That's what scares me about folks who buy low P/Es without further homework. It's too easy to get bagged by numbers that aren't really as good as they look.

Let's face it: Careful analysis is a lot tougher than just buying stocks on stories or on a superficial look at the numbers. But if you are not willing to do the analysis, you shouldn't be investing on your own.

Where to start? Hit the backs of annual reports and get the yearly SEC Form 10-Ks (available from the company usually, or from the SEC). Here are a few things to look for: unconsolidated finance subsidiaries, changes to depreciation policies, and inventory costing. Then look for pension plan assets that are less than promised or where the plan has reduced actuarial assumptions—both common smokescreens for lost assets.

A loss that pops up lots now is the company that bought back stock just before the price fell, and has the stock on the books at cost. A microcomputer and a simple spreadsheet program, like Lotus, actually can track this before the quarter ends. Then look for changes in nonoperating income and how it's accounted for, decreases in the tax rate, and rising capitalized expenses. Some managements would capitalize hot air if they could, and so would their auditors (even among Big Eight firms). In the real world auditors are picked by management. The slimiest managements find the slimiest auditors.

Here are three cheap stocks of good companies with conservative and honest managements. The annual report footnotes are boring because there's nothing scandalous in them to read: *American President Cos.* (28), *Ames Department Stores* (16) and *Redman* (8). ■

Kenneth L. Fisher is a Woodside, Calif. based money manager. He has written two books, The Wall Street Waltz and Super Stocks.

This newsletter guru promises to reveal secrets of investment success to buyers of his book. How would he know?

FALSE PROFIT

By Mark Hulbert

"Profit From Our #1 Rated Advice" is the 40-point headline Stan Weinstein uses in his latest advertising campaign to trumpet his heavily promoted investment letter, *The Professional Tape Reader*, and his new book, *Secrets for Profiting in Bull and Bear Markets* (Dow Jones Irwin, $22.95). Weinstein cites my rating of just one aspect of his advice in support of his number one ranking—but neglects the others. Caveat emptor. Anyone familiar with Weinstein's overall long-term performance as measured by the *Hulbert Financial Digest* would find an *HFD* number-one rating as surprising as a *Consumer Reports* seal of approval for the Suzuki Samurai.

First the facts. In my just-completed summary of newsletter performance for the eight years through mid-1988, I report that the model portfolio in Weinstein's letter gained a grand total of just 28.9%. Over the same eight years, the S&P 500 (with dividends reinvested) gained 239%. Even a portfolio comprising only 90-day Treasury bills would have made 99.8%.

The *HFD* has also tracked Weinstein's market timing system designed for intermediate-term traders of mutual funds. A portfolio that alternated between hypothetical shares of the NYSE Composite and T bills on switches generated by this system made a total of 100.2% over the last eight years. Buying and holding the NYSE Composite, in contrast, yielded 136.4%.

So where in the *HFD* does Weinstein find evidence for a number one rating? Well, *Professional Tape Reader* also offers three more timing strategies, for short-, intermediate- and long-term investors. For each category the *HFD* constructs two separate hypothetical portfolios: one that goes into cash upon receipt of a sell signal and another that actually goes short. While one of the resulting six finished first among timing-only portfolios in 1987, the average did not.

The investment newsletter community often obeys an "11th commandment" like Ronald Reagan's "Thou shalt not speak ill of a fellow Republican." It therefore isn't too surprising that Weinstein was able to obtain glowing testimonials for his new book from a number of fellow newsletter editors. But investors would do well to take them with a grain of salt. For example, *The Elliott Wave Theorist*'s Robert Prechter says that Weinstein's advice will "turn a loser . . . into a winner." Prechter hasn't needed it himself, however; his timing signals for investors have far outpaced Weinstein's over the last eight years, gaining 230.7%.

Similarly, *The Astute Investor*'s Robert Nurock, originator of *Wall Street Week*'s Technical Market Index, which has the best eight-year timing record of any the *HFD* has followed, writes that Weinstein's book "is so thorough in its investment approach that readers may want to cancel their subscriptions to the *Wall Street Journal*." I suspect that Nurock is not recommending that we cancel our subscriptions to the *Journal*; rather he simply is echoing a basic precept of technical analysis—the theory that by studying stock trading action you can predict future price movements, which Weinstein enthusiastically espouses. He explains his philosophy in the book: "You cannot consistently make money in the market by reading today's fundamentals in the newspaper and acting on that information. That is a prescription for disaster."

The stock market does efficiently assimilate new information, and it is undeniably difficult for the investor to make any money exploiting today's headlines. In this belief in efficient markets, both technical analysis and the prevailing academic doctrine—the Efficient Market Hypothesis—see eye to eye. But this is about all the two approaches hold in common. Academics almost unanimously believe that technical analysis is useless.

The *HFD*'s performance ratings incline me to a much more qualified judgment. At both the top and the bottom of the *HFD* performance list for this decade, there are both fundamental and technical analysts. (Although I must add that since the late Charles Stahl of *Green's Commodity Market Comments* I haven't found a really successful practitioner of Weinstein's particular type of technical analysis, which focuses on chart patterns and was pioneered by John Magee.)

On performance grounds alone, therefore, one can't rule out either approach. The important thing is not choosing between technical and fundamental analysis, but between good and bad advisers.

So Weinstein's record is not an indictment of technical analysis itself but rather a reflection of his interpretation of it. As Weinstein cautions in his book: "Technical analysis is more an art than a science. And just as everyone who picks up a paintbrush is not a Picasso, everyone who opens a chart book is not a John Magee." Weinstein's warning just might be the most valuable piece of advice that his book contains. ■

Mark Hulbert is the editor of the Washington, D.C.-based Hulbert Financial Digest, *and the author of* The Second Hulbert Financial Digest Almanac.

The next Administration will try—but fail—to support inflated house prices.

THOUGHTS UPON A SHALLOW FISHPOND

By Ashby Bladen

Local real estate brokers tell me that my home's market price has trebled over the past six years. But has its real value risen? It is that much older, and the fishpond is getting shallow because each droughty summer, when it would be easy to dig out, my wife says the wildlife in the surrounding woods need the water and should not be scared off by noisy machinery.

In 1979 I wrote a book that said the Fed should continue the next credit crunch until it caused a crisis that scared the American people out of the inflationary habits created by half a century of Keynesian public policies. Otherwise, we would borrow and spend ourselves into a disaster. I also argued that the necessary crunch would cause a crash in house prices.

Instead, the Mexican debt crisis scared the Fed into relaxing the crunch in 1982. Its failure led me to do two things. I pulled my book off the market because its main theme was clearly not working out. And I promptly bought the home in which I intend to end my days.

The renewed boom in house prices is one of the ways in which we have created the appearance of prosperity by borrowing like crazy to buy one another's inflation hedges at ever higher prices. By now too many homeowners have taken on a dangerously excessive load of debt, just like every other sector of our economy. Such credit-fueled inflation of asset values has happened before, but it is not yet recognized in economic theory because economists measure inflation only by the Consumer Price Index or the GNP deflator, which reflect current production. They never count the rising prices of existing inflation hedges, like houses, even though both are caused by borrowing.

Ever since political democracy became a popular ideal, cynics have argued that democracies could not be financially responsible because politicians will always buy votes today at the cost of higher taxes or inflation tomorrow. In this election year the politicians' sweeping under the rug of our rapidly worsening financial problems is strengthening the cynics' case. And the next Administration will almost certainly prove it by trying to bail out America's overextended homeowners, at the ultimate cost of worsening the inflationary depression that has already begun in the Third World.

The borrowing of the 1920s mainly pushed up asset prices, before the resulting debt burden caused the Great Depression. In the 1960s and 1970s borrowing opened up the inflationary gap between what we earned by producing useful goods and services and what we managed to spend. In the 1980s excessive borrowing is again causing progressively worse financial trouble as debt-service charges become a steadily heavier burden on the incomes from which they must be paid.

Unfortunately, economists think depressions are caused not by debt but by excessive saving, which must be offset by government-sponsored borrowing and spending. Their hair-of-the-dog panacea works at the cost of making the underlying problem progressively worse.

For half a century our politicians have followed the economists' advice by penalizing saving and rewarding borrowing and spending on politically attractive things like houses. One unintended consequence was a vast inflation of house prices as the value of the subsidies got capitalized into the market price. Indeed, the main result of 50 years of policies that aimed to make it easy for Americans to own their homes was to price young people out of the house market.

Now the boom in house prices is fading because interest rates are rising again as inflation worsens. And our prosperity now depends on continuing to borrow from the German and Japanese central banks, which have lost a lot of their taxpayers' money supporting the dollar over the last four years. Our international creditworthiness is wearing thin, and we need to reassure our creditors with high interest rates and a convincing anti-inflation policy. Otherwise, they, not the Fed, will impose the next credit crunch.

Nevertheless, the next Administration will find it politically necessary to follow the lead of the Third World countries that we used to scorn as banana republics. Since 1982 they have tried to bail everybody out at home, at the cost of letting their international creditworthiness go to pot. The result was accelerating inflation that depressed their national standards of living but rewarded those who borrowed to buy inflation hedges.

We have now created a wildly unstable environment in which the policy of bailing everybody out is bound to fail in the end, although it can certainly make the fundamental problem of overindebtedness a lot worse in the meantime. Moreover, the evil day is much closer now than it was in 1979. I do not think of my home as a financial asset, and I certainly wouldn't sell it just to take a profit. But if you are holding residential property for investment, this summer looks like an excellent time to cash in. ■

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis.

MONEY & INVESTMENTS

Are current commodity prices signaling inflation? Don't you believe it.

INFLATION? WHERE?

By Alan Reynolds

A recent fad among bond traders has been "betting the CRB"—selling bonds if the Commodity Research Bureau index of commodity futures prices rises. This strategy appears as one-sided as it is unprofitable, since it apparently does not involve buying bonds when the CRB falls. The whole game is almost enough to make us nostalgic about the previous bond trading fetish with weekly money supply numbers.

Back in early 1982 and mid-1984, I suggested that the Fed ought to ease when commodity prices collapse, and snug up if they climb. But I was talking about trends in industrial commodities or gold, not daily gyrations in futures prices of farm commodities.

Research by the Federal Reserve staff has found the CRB index to be the worst of several commodity indexes as a leading indicator of overall price trends. One reason is that half of the CRB futures index consists of farm products (futures prices for industrial commodities have not increased at all this year). Sugar and oats combined are treated as though they were twice as important as crude oil; soybeans are counted three times (as beans, meal and oil), while steel isn't even included. Perhaps the appeal of the futures index is the hunch that only the futures markets can see into the future. Yet futures markets share the exact same information with every other market, including the bond market.

Since CRB futures have recently been dominated by guesses about the future prices of farm products, that index rises and falls with forecasts of rainfall. To trade 30-year bonds on daily weather forecasts is perhaps the oddest gamble yet devised. After all, the midwestern drought is a nonrecurring event that cannot create a sustained increase in the general level of prices.

Farmers will surely plant more, all over the globe, bringing prices back down. To the extent that higher raw material costs temporarily increase prices of finished food products, consumers will have to cut back on something else, holding other prices down. Moreover, since the drought mainly increased export prices, it may well have helped strengthen the dollar—just as a higher oil price usually strengthens the British pound. The Japanese will need more dollars just to feed themselves. That stronger dollar, in turn, puts downward pressure on prices of nonfood commodities.

If CRB futures is not the right commodity index to watch for signs of inflation, what is? The broadest indexes of spot commodity prices are those currently published by the IMF, the *Economist* and the *Journal of Commerce*.

Are these broader indexes signaling faster inflation? The IMF index, which includes many agricultural products, rose 8% in 1987. But that simply mirrored the concerted effort last year to shove the dollar down. As a recent New York Fed study observes, "the price of [raw] materials is set in global markets and rises in dollar terms about equally with the level of dollar depreciation." Yet even after a prolonged drop in the dollar, the 1987 average for the IMF index was still 11% lower than it was in 1984, and a huge 80% lower when measured in Japanese yen. This year, by contrast, the dollar has been quite strong. That means commodities (including oil) are getting expensive in terms of Japanese and European currencies, thereby curbing foreign purchases and inventories. The resulting decline in demand, plus tighter monetary policies in Europe and Japan, may already be depressing nonfarm commodities.

The *Economist* recently ran a rather hysterical story about past increases in its own commodity index, yet the latest issue actually shows industrial commodities down by more than 16% in a single month. Another seemingly scary *Journal of Commerce* headline in mid-June read, "Price Index Hits 101.2, Highest in Four Years." Only three weeks later, however, the same journal's headline was, "Price Index Continues Slow, Steady Decline." Indeed, the *JOC* index has lately been no higher than a year ago, four years ago, eight years ago.

A timely and accurate index of inflation-sensitive prices would have to leave out commodities subject to abrupt supply shocks (such as farm products and oil), as well as prices that change infrequently (regulated utility rates and rents), and service prices that lag behind general inflation (college tuitions or physicians' fees). Highly cyclical commodities should likewise be omitted, because such prices must rise and fall to clear markets.

By elimination, the most practical index of future inflation or deflation thus turns out to have a very heavy weight on gold—roughly 100%. So long as short-term interest rates remain higher than the rate of increase in gold prices, as they certainly have been, that suggests that there is no general incentive to unload financial assets in favor of tangible hedge assets. In that case, bond investors can prudently bet against those who are betting on falling bond prices based on short-term action of the CRB. ■

Alan Reynolds, a guest columnist, is chief economist with Polyconomics Inc., a consulting firm in Morristown, N.J.

Dukakis Interview

(Continued from page 19)

MSF: You don't share Jackson's view that there has to be a national. . . .

Dukakis: On the contrary. I am a great believer in not creating more unnecessary bureaucracy when we have a workers' comp system that seems to work rather well through the private mechanism. I do think employers, with some exceptions for the smaller companies, ought to be expected to insure employees. But the point I'm trying to make here is that the Vice President has been all over the lot on taxes—at first he was against them and then he said, well, as a last resort, now he's against them again. He's supporting legislation that the President's about to sign that will increase taxes. The President was down in Miami saying I'm a taxer. He's about to sign the Catastrophic Health Insurance bill. Doesn't he know that [measure includes a] new tax?

Photo by Gene Tyson

The defense budget in real terms isn't going to increase over the next few years no matter who the next President is. We all know that. So you don't have the luxury of going into the defense candy store and saying, "I want one of these, and one of these. . . ."

MSF: What is your reaction—judging from the President's comments on the Massachusetts Miracle—to being attacked on the basis of numbers of new employees, rate of increases in state spending, etc., etc.

Dukakis: Well, 2.8% and 10 balanced budgets in a row, that ain't bad. And state and local taxes and fees as a percentage of personal income is 40th in the country, well below the national average. Not bad. Now remember, one of the reasons that state spending has increased substantially is because of Proposition 2½. We have really provided enormous amounts of additional aid to our cities and towns because they were capital poor. That's why our property taxes as a percentage of personal income have dropped dramatically. But if you're going to pay for schools and police and fire at the local levels, somebody's got to come through, and the state has done so. We now commit 40% of our growth budgets at the state level to aid to our cities and towns. And that's why we've had significantly greater increases in state spending. But a big chunk of that goes to our cities and towns to provide municipal services; because of item 2½ they cannot increase their property taxes by more than 2½% a year.

MSF: To shift to another scenario, what's your feeling about Gorbachev's chances of survival?

Dukakis: I, like all Americans and all citizens of the world, am watching this [conference] and watching Gorbachev and watching what's going on.

MSF: His problems make some of our problems look easy.

Dukakis: Nobody can look at that and not conclude that something rather fundamental is taking place in the Soviet Union.

MSF: What is your feeling about the West and ourselves in particular providing some of the kind of aid he wants, that Russia needs?

Dukakis: I'm with Bill Bradley. I don't think we ought to engage in what Bradley refers to as "romantic capitalism." If they want to engage in hardheaded, proven joint ventures, that's one thing, but I think the notion that we somehow ought to go over there and say, "Well, what do you want?" I mean, we've got a Third World debt problem in this country which was largely the result of that kind of open-handed view of lending to foreign governments. I think we've got to be very pragmatic and very businesslike about any business deals. And, if we're going to engage in expanded economic relations with the Soviet Union, I think they'd better demonstrate that they're serious about the Helsinki Accords and especially about immigration. I think that's an essential part of it.

But I must say that I don't think any one of us sitting here today could have possibly imagined the General Secretary of the Communist Party talking about a presidential system, you know? And the price mechanism, and independent firms and unemployment. But I'll tell you this, it seems to me if we can get our own act together, get our own house in order, this certainly, I think, demonstrates that our system and our approach to things is a winner, providing we manage our affairs right. I mean, what does the Soviet experience and what's going on in Eastern Europe tell us? That closed societies don't work, and I think that's Gorbachev's fundamental challenge. Can he somehow transform this heavy-handed, state-controlled and badly stagnating economic system into something that works? We will see. I don't know.

MSF: In your first 100 days as President, do you have specific measures to get enacted during that traditional "honeymoon" with Congress?

Dukakis: I'm not a great 100-days man.

MSF: You're not?

Dukakis: No. I'm a guy that says you've got four years to go at it. But there are obviously some priorities I have that I spelled out in the campaign that I'm serious about. But I think getting control of our economic destiny, bringing that deficit down at the same time that we are investing in our economic future is where we ought to be. And you will see me, if I'm elected, you will see me spending a very large percentage of my time on the economic future. Regional development is something I believe in very strongly. I've seen it work in my own state. I'll be out across the country working with the 50 governors, working with Congress to invest in those regions of the country that need substantial growth. Going to the business community and saying, "Look, if you're thinking of expanding. . . ."

If I'm elected, I'll be out across the country working with the 50 governors, working with Congress to invest in those regions of the country that need substantial growth. Going to business and saying: "Look, if you're thinking of expanding. . . ."

MSF: And how do you get the money to do that when you reduce the deficit?

Dukakis: Well, well, you don't spend $4 billion on Star Wars, MX's on railroad cars, all this kind of stuff. You start investing some portion of that in both economic development and training.

MSF: I'd agree with you on that.

MSF Jr.: Is it possible to expand conventional forces without a huge outlay?

Dukakis: Well, you're not talking about a huge outlay. You're talking about some basic things, like fuel for tanks. I mean like Coast Guard cutters tied up at docks all summer, literally, and not patrolling because they don't have enough fuel; like flight time for pilots; like spare parts for airplane engines. I mean this is crazy! We've got 12,000 strategic nuclear warheads, a massive nuclear deterrent, and we haven't got enough fuel for a tank command. We're losing our own war games to the Soviets in the Mohave Desert because our guns don't fire.

I'm a guy that believes in fundamentals. I think if you can't train and equip and supply your fighting forces with what they need to do what we're asking them to do, then there's something the matter with that. And that means that the next President will have to start making some tough choices. The Vice President said he wants to do Star Wars, wants to do MX, wants to do Midget Man. . . . The defense budget in real terms is not going to increase over the next few years no matter who the next President is. We all know that. So you don't have the luxury of going into the defense candy store and saying, "I want one of these, one of these and one of these." We've got to get serious about it. [For improving] our conventional force you're not talking about vast outlays, you're talking about basic stuff: training support, airlift and sealift.

Now, if the Soviets are serious—and this is another very, very dramatic development here—if they're serious about conventional force reduction in Europe with deeper cuts on the Soviet side, then you've got a whole new ball game. One hundred and fifty billion dollars of our defense budget today is going to defense in Europe. And that's half of our defense budget. So if the Soviets are serious and we can, with our allies in the West, get to the table and begin talking seriously about conventional force reduction, then there are possibilities for real savings.

But that's something that's not going to be easy. Conventional force reduction involves tricky inspection, verification questions, defense strategy issues and so on. And I'm not sure at this point that there is complete agreement in the Soviet Union on restructured defense. Gorbachev himself had an interesting chat with Sam Nunn. Yes, this

I don't want to stop mergers and acquisitions in this country.

was pointed out, while Gorbachev himself talks about sufficiency, and presumably substantially less in the way of conventional forces, Sam tells me that many Soviet generals are not happy with that sufficiency. So they've got their debate.

MSF: One minor point, on the plant closing notices. You did accept a voluntary program in Massachusetts.

Dukakis: Well, that's a misnomer. There are some pretty tough sanctions. For example, if a company isn't willing to sign a notice pledge, it's not eligible for state financing through Massachusetts' industrial finance agency or any of our quasi-public agencies. They must rewrite their health insurance plans so that anyone laid off gets at least 90 days' insurance after they are laid off. That's mandatory. So there are certain aspects of this that are mandatory.

MSF: In other words the federal law that is probably going to pass despite the President's veto, you've. . . .

Dukakis: Fought for, yes. But I don't want to see the states. . . . Tell you what, and I've said this many times, I'll tell you why the plant closing law is so important: It isn't just 'cause it tells somebody 60 days in advance that he's going to be thrown out on the street. If the whole notion of giving notice begins to become a part of our economic life, and I hope it will, that means that governors, mayors, state economic development agencies, other business people, can come in in advance and do something to save those jobs. We estimate that we've saved around 240 companies

We've got 12,000 strategic nuclear warheads and we haven't got enough fuel for a tank command. We're losing our own war games to the Soviets in the Mohave Desert because our guns don't fire.

and thousands of jobs because now we get notice. We can step in there with what we call our Industrial Stabilization Program, and in many cases, either find new owners or help a refinancing or whatever.

So if we can get notice early, we can do a great deal to save companies and jobs. If you don't get notice, you know, if your phone rings and they say, "Hey, they're closing down tomorrow," there's nothing the government can do. And in those cases where there is a closing or a major layoff, the fact that notice is given means that we can get in early, start the training and retraining process, and we've had great success with it at retraining and placing people.

MSF Jr.: I was just wondering if you had any thoughts or plans or ideas on minimizing the violent swings in the dollar in the past 18 years?

Dukakis: Yes. Get the federal budget balanced, because that's the single most important reason why that dollar is bouncing around. Now, I don't rule out, Steve, the possibility of an international monetary conference and some broad banding of [currency] swings within certain ranges. But look, as long as the United States is borrowing somewhere between $150 and $200 billion from foreign lenders to pay its bills, you're going to have a very unstable dollar situation.

MSF Jr.: You don't see that a capital inflow is a sign of confidence in an expanding economy?

Dukakis: I have no problem with a capital inflow that is financing real economic growth. I have problems with massive portfolio holdings of government securities which could be unloaded at any time. That's the danger. It isn't that we're getting Japanese investment in plants, hell, I mean that's fine. It's the massive portfolio holdings of government securities. ■

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Streetwalker

Edited by Thomas Jaffe

Trading vehicle

Few question that MCA Inc., the $2.6 billion (sales) entertainment giant run by Lew Wasserman, is worth considerably more than its recent Big Board price of $42. MCA owns Universal City Studios, with its successful studio tour, and other valuable real estate. There's Universal's film and TV production business (as well as its library of movies and TV series), MCA records and its music library, 50% of movie theater chain Cineplex Odeon and more.

Analysts peg the value of all this at $60 to $90 a share. So why the enormous, and continuing, discount? In October Universal will begin selling videocassettes of its 1982 hit *E.T.* Even so, earnings remain stuck at around $2 a share. The studio hasn't had a smash release since *Back to the Future* in 1985, and sales of its TV shows, such as *Miami Vice*, into the U.S. syndication market have been slow. MCA is spending a fortune to open a studio tour in the Orlando area, where it will be locking horns with Disney.

With earnings cloudy and the asset value story strictly for long-term investors, MCA has become a trading vehicle. The stock bobs up and down on rumors of takeover and the health of Lew Wasserman, 75, who owns 7.1% of the 73 million shares, votes another 4.9% held by founder Jules Stein's estate and influences Stein's widow, Jean, who owns 6.5% more.

box office star E.T.
When will the value come home?

Last summer MCA jumped from the high 40s into the high 50s when Wasserman was hospitalized for colon surgery—and back to the low 50s after he recovered. Then the stock shot up to the low 60s when MCA put in a poison pill. After the Crash it fell to 30, only to rebound in February to 47½ on news that Donald Trump was buying. But by Memorial Day the shares were below 40. Then, late in June, rumors surfaced of Wasserman's rehospitalization in Los Angeles. The stock moved up 2 points, to 43½; this, even after Wasserman was sighted at a theater on Broadway. Unless you're willing to sit with these shares for as long as it takes for the asset values to be reflected in the market price, buy the stock on weakness (at 40 or less) and take profits at 50.

A working peer

Charles Rose of Oppenheimer & Co. greatly admires Lord James Hanson and Sir Gordon White, builders of $15 billion (estimated 1988 sales) Hanson Plc. In the 1980s the London conglomerate has bought the likes of Imperial Group, SCM, Kaiser Cement and, last November, $2.4 billion (sales) Kidde, Inc.

Hanson's strategy is a familiar one: Sell assets of the acquired company to pay down costs, improve the earnings of what remains, reliquefy the balance sheet and go on to bigger targets. Since 1980 Hanson has spent $7.5 billion (excluding Kidde) to acquire businesses with operating income of $715 million at the time of purchase. During the period it sold assets for $5.7 billion. For the fiscal year ending Sept. 30 Rose expects the remaining assets to generate $900 million of pretax income. Not bad.

As you might have guessed, Hanson's leverage is not for the faint of heart. But Rose notes that the company has $6.5 billion of gross cash versus total debt of $5.6 billion, most of which is convertible and currently "in the money."

Meanwhile, Hanson continues divesting and reliquefying with accustomed success. Recently, the company sold HP Foods and Lea & Perrins Cos. for $338.5 million. Fiscal 1987 sales for the pair were $158 million, pretax profits $20 million and book value just $42.5 million.

Hanson has nearly 4.5 billion—with a "b"—fully diluted common shares, listed on the London Stock Exchange. Rose recommends that U.S. investors buy the NYSE-listed American Depositary Receipts. There are roughly 900 million ADRs, one per five ordinary shares; each ADR sells for around 12¼. For the current fiscal year, Rose estimates fully diluted earnings will be $1.50 per ADR, up 36% over 1987. He's looking for $1.75 to $2 in 1989. At just 8 times this year's anticipated earnings, and a mere 6 to 7 times next year's, Rose thinks Hanson's a bargain.

Temporary sleeper

Before it was acquired by Hanson Plc. last November, Kidde, Inc. spun off Interim Systems Corp., its temporary help business, to shareholders. Interim's indicated value was $3.90 a share, but the arbs dumped the Interim stub and by late 1987 o-t-c traded Interim was down to 1⅛.

Since then, however, Interim has inched back to a recent 2⅞, with insider buying leading the way. These aren't just any insiders, either. Interim is headed by Fred Sullivan, Kidde's former chairman. His board includes George Scharffenberger, the ex-chairman of City Investing; and Norman Alexander, chairman of Sequa Corp. At the time of the spinoff, insiders owned 1.5% of the 26.6 million shares; now it's closer to 15%, including Sullivan's 12.2%.

What do these investors see in $147 million (sales) Interim? A growth vehicle with which to expand in the $12 billion temporary help industry. Over the last five years sales have compounded 20% annually, earnings per share 27%. Interim has two divisions: Victor Temporary Services (office and light industrial workers for business and government) and Professional Nurses Bureau (healthcare specialists for the home nursing and hospital markets).

Barry Gluck, of New York's Ladenburg, Thalmann & Co., thinks Interim will earn 18 cents a share in 1988, up 38%. He also expects debt-free, cash flow-positive Interim to acquire independent temp help firms in the $15-million-to-$50-million sales range. Although the stock trades for a rich 16 times anticipated earnings, Gluck points out that competitors Olsten Corp. and Uniforce Temporary Personnel sell for 75% of sales; Interim for just 45% of sales. With veteran conglomerator Sullivan at the helm, Gluck thinks this is one to watch.

Drilling for red ink

Baltimore bankruptcy specialist John Boland of John C. Boland & Co. has some words of warning for bottom fishers holding securities of Global Marine Inc., who expect a big payoff when the contract offshore driller emerges from Chapter 11. Global currently has 33.3 million common shares (recent NYSE price of 1⅛), 4.6 million convertible preferred shares (2¼ on the NYSE) and four issues of senior subordinated debentures—$129.3 million of 16⅛% due 2002, $83.5 million of 16% due 2001, $105.5 million of 13% convertible due 2003 and $25 million of 12⅜% due 1998. Also listed on the Big Board, these are all trading between $140 and $150 per $1,000 bond.

Under the reorganization plan proposed by Global, there will be about 112.5 million new shares, assuming the exercise of warrants. Some 90% of the new common is to be distributed to senior unsecured lenders. The balance goes to debenture holders (7.5%), preferred holders (0.7%) and common holders (1.8%).

For purposes of the settlement, Global's plan values the new common at $1.50 a share. Not likely, says Boland. Drilling day rates have recovered from last year, but as of Apr. 1 worldwide use of rigs was still a low 67%. According to Global, drilling activity must reach 80% before there can be significant rate increases. Boland finds it hard to get enthusiastic about the equity of a reorganized company that expects to be losing $40 million a year two years from now, even under the best conditions.

The new Global, moreover, will carry $380 million of debt. Beginning in 1991 debt service will kick in massively. Meanwhile, between 1993 and 1996 the company must repay 50% of the outstanding principal.

All of which makes Global's equity and debt securities grossly overvalued at recent prices, says Boland. Using the plan's projected price of $1.50 for the new common assigns a market value of $170 million to the reorganized company. Add debt, and that's a capitalization of $550 million for a company that will book $145 million in sales this year, if it's lucky.

According to Boland, the subordinated debentures are worth no more than $60 per $1,000 bond, the preferred 38 cents a share and the common 14 cents a share—one-tenth of what it now goes for. And that's the best case. It could be a lot less.

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Forbes Index

INDEX OF COMPANIES COVERED IN NEWS STORIES AND BY THE COLUMNISTS IN THIS ISSUE. EACH REFERENCE IS TO THE FIRST PAGE OF THE STORY IN WHICH THE COMPANY NAME APPEARS.

Adams-Millis ... 116
Advance Publications (Random House) ... 100
Airborne Express ... 96
Aladdin Industries ... 100
Albemarle Paper ... 135
Alexander & Baldwin ... 73
All Nippon Airways ... 84
Allied-Signal ... 120
Amax ... 46
American Express ... 40
American President ... 122
Ames Department Stores ... 122
Amoco ... 46
AMR (American Airlines) ... 84
Amrep ... 122
Anheuser-Busch ... 135
Antique Trader Weekly ... 100
Arbor House ... 100
Architectural Digest ... 100
Arco ... 46
Aristech ... 37
Arts & Entertainment ... 76
Ashland Oil ... 73
Ashton-Tate ... 96
The Astute Investor ... 123
AT&T ... 106
B+H Bulk Carriers ... 39
B+H Ocean Carriers ... 39
BancTec ... 116
Bank of Montreal ... 50
Barnes & Noble ... 98
Barris Industries (Guber-Peters) ... 12
Behind the Numbers ... 122
Benton County (Mo.) *Enterprise* ... 21
Bergesen DY ... 39
Bethlehem Steel ... 39, 120
Bi-Lingual ... 54
BMW ... 20
Boatmen's Bancshares ... 90
Boeing ... 84, 120
John C. Boland ... 131
Boliden Minerals ... 46
Borg-Warner ... 37
Mark Boyar ... 76
British Leyland ... 135
Brown Brothers Harriman ... 14
BSN Groupe (HP Foods; Lea & Perrins) ... 130
Bulk Transport ... 39
Cablevision Systems (Rainbow Services; SportsChannel) ... 76
Camalier & Buckley ... 52
Campbell Soup ... 40
Canadian Imperial Bank of Commerce ... 50
Canadian Pacific ... 48
Capital Cities/ABC ... 76
Catalyst Energy ... 12
CBS ... 76
Chaparral Steel ... 120
Chevron ... 46
Chris-Craft Industries ... 12
Christian Science Monitor ... 104
Chronicle Books (San Francisco) ... 100
Cineplex Odeon ... 130
Citicorp ... 86
Cities Service Oil ... 73
City Investing ... 130
Clark Oil & Refining ... 73
Cleveland Electric ... 119
Coated Sales ... 116
Coca-Cola (Columbia Pictures) ... 106
Colonial Pipeline ... 110
Commerce Bancshares ... 90
Compaq ... 96
Concord Pacific Developments ... 48
Consumer Reports ... 123
Continental Illinois ... 80
CoreStates Financial ... 40
Corum ... 52
Crazy Eddie ... 116
Crouch & Fitzgerald ... 52
Crown Publishers Group ... 98
CTC Mansfield Funding ... 119
Cyprus Minerals ... 46
Daimler-Benz ... 86
B. Dalton Bookseller ... 98
Dannon ... 88
Delta Air Lines ... 84
Deutsche Bank ... 120
Dialog Information Services ... 62
Walt Disney ... 130
Donoghue Organization ... 117
Dow Chemical ... 37
Dow Jones ... 8
Dow Jones *(Wall Street Journal)* ... 123
Drexel Burnham Lambert ... 52
Dun & Bradstreet (A.C. Nielsen) ... 76
Duquesne Light ... 119
Eaton ... 120
Eberstadt Fleming ... 37
Economist ... 125
El Paso Electric ... 119
The Elliott Wave Theorist ... 123
Ernst & Whinney ... 110
Ethyl ... 135
Feldmühle ... 92
Fidelity funds ... 39
Fidelity Investments ... 61
Fireman's Fund ... 24
First Boston ... 76
First City Bancorp ... 80
First Fidelity Bancorp ... 40
First International Financial ... 39
First Multifund for Daily Income ... 117
First RepublicBank ... 80
Flex-Funds Money Market Fund ... 117
Fluor ... 120
Ford Motor ... 135
Fortunoff ... 52
Franklin funds ... 117
Gannett ... 62
GE ... 37, 92
GE (NBC) ... 76
Genentech ... 114
General Dynamics ... 111
General Mills ... 88, 90
General Motors (Chevrolet) ... 135
Generic Stock Investment Service ... 116
Georgia Gulf ... 37
Giant Group ... 12
Glasstech ... 108
Glaxo Holdings ... 135
Global Marine ... 131
Golden Nugget ... 13
Gorman's New Product News ... 88
Gotaas-Larsen Shipping ... 39
W.R. Grace ... 12
Grant Thornton ... 111
Green's Commodity Market Comments ... 123
Griffin ... 13
Grumman ... 111
Guest Keen & Nettlefolds ... 135
Hambrecht & Quist ... 8
Hanson ... 130
Harper's Bazaar ... 52
Harvard Business Review ... 96
Hearst ... 100
HG ... 100
HongKong Bank of Canada ... 48
Hot Boxing ... 100
Household International (King-Seely Thermos) ... 100
Hulbert Financial Digest ... 123

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IBM ... 96
IDS funds ... 117
Illinois Tool Works ... 120
Imperial Chemical ... 37
Interim Systems ... 130
Interior Decorating ... 100
International Thomson ... 12
ITT ... 120
Japan Air Lines ... 84
Jusco (Talbot's) ... 88
K mart ... 98
Kaufman Astoria Studio ... 106
Kemper ... 90
Kingdom Establishment for Trading & Contracting ... 86
Calvin Klein ... 20
Knight-Ridder ... 62
Koppers ... 37
KWTV ... 76
Ladenburg, Thalmann ... 130
C.J. Lawrence ... 111
Lifetime Cabletelevision Network ... 76, 106
Little, Brown ... 100
Lloyd's of London ... 135
Lockheed ... 62, 111
Loews ... 39, 76
Long Island Lighting ... 119
Lorimar Telepictures ... 12
LTV Steel ... 46
M.Z. Berger (Elgin Watch; Waltham Watch) ... 52
Mabon, Nugent ... 37, 39
R.H. Macy ... 52
Magicorp ... 96
Matsushita Electric (Panasonic) ... 104
MCA ... 130
McDonald's ... 98
McDonnell Douglas ... 40, 111
MD Papierfabrik ... 92
Measurex ... 122
Mellon Bank ... 40
Merrill Lynch ... 8, 39, 61, 119
Metropolitan Home ... 100
MGM/UA ... 12
Microsoft ... 96
Mitsubishi ... 73
MNC Financial ... 40
Mobil ... 110
Montgomery Securities ... 61
Montres Rolex ... 52
J.P. Morgan ... 27, 40, 50
Morgan Grenfell ... 120
Morgan Stanley ... 37, 119
National Real Estate Service ... 48
National Review ... 21
New York Times ... 31, 96
News America Holdings (Harper & Row) ... 122
Nihon Keizai Shimbun ... 8
Nomura ... 120
Noranda ... 46
North American Philips (Magnavox) ... 104
North American Watch ... 52
Northern Indiana Public Service ... 46
NR Press ... 21
NWA ... 84
O'Shaughnessy Capital Management ... 14
Occidental Petroleum ... 37
Ogden ... 120
Ohio Art ... 100
Olsten ... 130
OMI ... 39
Oppenheimer ... 130
Overseas Shipholding Group ... 39
P&O Group ... 39
Pacific Resources ... 73
Paramount Pictures ... 106
Park ... 46
J.C. Penney ... 40
Pennzoil ... 46
Phelps Dodge ... 46
Philip Morris ... 135
Phillips Petroleum ... 37
Piaget ... 52
Pocketbank ... 40
Price Waterhouse ... 111
The Professional Tape Reader ... 123
Public Service of New Hampshire ... 119
Public Service of New Mexico ... 119
Quaker Oats ... 88
Quantum ... 37
Recruit Cosmos ... 8
Redman Industries ... 122
Repap Enterprises ... 92
Reynolds Metals ... 39
Roper ... 116
N.M. Rothschild ... 120
Royal Bank of Canada ... 50
Royal LePage ... 48
Salomon ... 40, 106
Schroder Investment Management ... 120
SCI Holdings ... 62
Scotiabank ... 50
Scott Paper ... 92
Sears, Roebuck ... 61
Sequa ... 130
Sharper Image ... 8
Shell International Trading ... 73
Skadden, Arps ... 110
SMH (Hamilton Watch; Omega Watch) ... 52
Sony ... 104
Spiegel (Eddie Bauer) ... 88
Square D ... 120
Standard Oil (Sohio) ... 46
Sterling Group ... 37
Stolt Tankers and Terminals ... 39
TCI ... 76
Tele-Communications ... 50
Tesoro Petroleum ... 73
Tidewater Oil ... 73
Times Mirror ... 62
Toledo Edison ... 119
Toronto-Dominion Bank ... 50
Toshiba ... 104
Town and Country ... 52
Toyota Motor ... 8
Trabert & Hoeffer ... 52
Travel & Leisure ... 52
Tribune ... 62
Trump Taj Mahal Funding ... 13
Tucker Anthony & R.L. Day ... 113
Turner Broadcasting (Cable News Network) ... 86, 104
Broadcasting (ESPN) ... 76
UAL ... 84
Uniforce Temporary Personnel ... 130
Union Carbide ... 37
United Missouri Bancshares ... 90
United Saudi Commercial Bank ... 86
Universal Pictures ... 106
USX ... 39
Vanguard funds ... 117
Vendex International ... 98
Viking Press ... 21
Vogue ... 52
Vons ... 88
Warner Communications ... 12
Wausau Paper Mills ... 92
Welbilt ... 116
West Virginia Steel ... 120
Westinghouse Electric ... 120
Wheeling-Pittsburgh ... 114
Woodward & Lothrop ... 52

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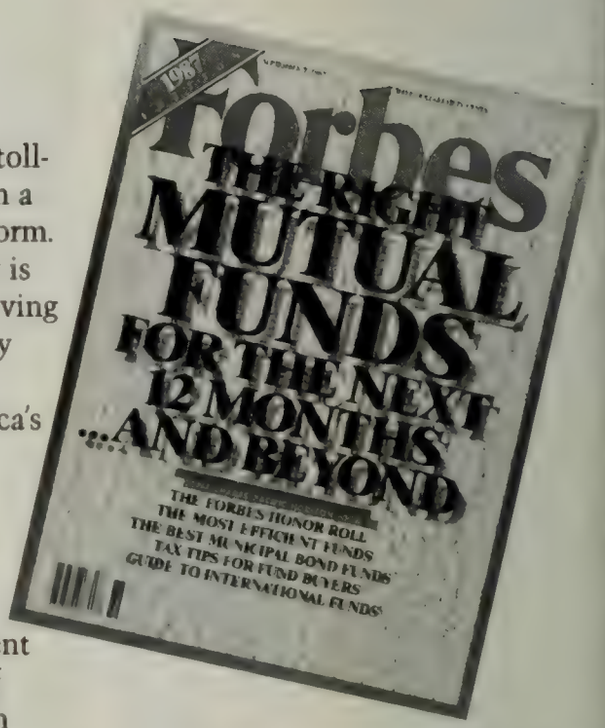

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(From the issue of August 15, 1928)

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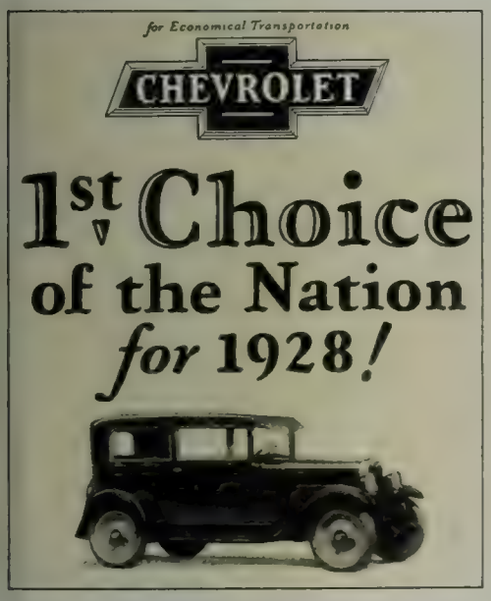

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Fifty years ago

(From the issue of August 15, 1938)

"Two new evidences of accelerated foreign interest in automobiles burning fuels other than gasoline have appeared lately. Brazil has decided to exempt from customs duties motor trucks with gasogene [gas-producing] equipment [to encourage] use of such vehicles. Then there has been a noticeable reappearance of automobiles using substitute fuels in Japan, where charcoal-burning buses are receiving government subsidies."

"Less than five out of every 1,000 manufacturing workers in the U.S. today are under 16 years of age, compared with 9 under that age in 1930 and 29 in 1904."

Twenty-five years ago

(From the issue of August 15, 1963)

"The New York Stock Exchange this month released some sad figures on the brokerage business. Average daily volume in 1962 was 3.8 million shares, down from 4.1 million the year before. Unfortunately, at the same time, the brokers' break-even point last year climbed from 3.1 million shares to 3.7 million. As a result, average profit margins on commission business last year fell to 0.4% from 5.8% in 1961. Most smaller firms actually lost money, according to the Exchange."

"Even in these days of the big deal and the fancy merger, it is rare indeed for a company to quadruple its sales and its earnings per share. To accomplish all that in a single year is rarer still. And when the company involved was already a good-sized operation, the feat sounds unbelievable. Yet this is precisely what President Floyd D. Gottwald's Albemarle Paper Co., now known as Ethyl Corp., has accomplished since last year."

Ten years ago

(From the issue of August 7, 1978)

"Lloyd's of London, that venerable British synonym for insurance, is under attack again—and this time, it could be serious. In recent weeks, four major British companies have fired broadsides at Lloyd's and, more importantly, have switched to the U.S. to buy insurance. The partings were anything but friendly. Guest Keen & Nettlefolds (steel, hardware, auto supplies, etc.) called Lloyd's 'the geriatric ward of world insurance.' Glaxo Holdings (pharmaceuticals, hospital supplies) said London offered insurance as

Lloyd's of London: Plenty of tradition, but not much to back it up

if 'it were a 1910 operation rather than the 1980s.' British Leyland, whose premiums run to $18 million a year, turned to New York, its insurance manager said, because London 'in effect, gave us no alternative.' "

"For six years now [Philip Morris'] Miller Brewing has been walking all over St. Louis' Anheuser-Busch. In 1972 Miller sold only 5.4 million barrels of beer to Anheuser's 26.5 million. By last year the gap had narrowed amazingly. The score: Miller, 24.2 million; Anheuser, 36.6 million. The gap is still narrowing. For 1978 Miller is probably going to sell at least 32 million barrels, a 33% gain, to Anheuser's 41 million, a 12% gain. A smiling [John A.] Murphy tells everyone: It's not a question of 'if' but of 'when' Miller will pass them."

"Tales about Ph.D.s driving taxicabs have been a cliché for many years now, but what is alarming is that many universities, unresponsive to market demand, continue to pour thousands of newly diplomaed Ph.D.s into a market that has not been able to absorb previous years' classes. It is as if a factory were to continue turning out a product for which there was little demand, simply putting the unsold product into inventory. But for Ph.D. factories there is nobody to cry halt."

Thoughts
on the Business of Life

There is nobody as enslaved as the fanatic, the person in whom one impulse, one value, has assumed ascendancy over all others.
MILTON SAPERSTEIN

Most men, after a little freedom, have preferred authority with the consoling assurances and the economy of effort which it brings.
WALTER LIPPMANN

The strongest bulwark of authority is uniformity; the least divergence from it is the greatest crime.
EMMA GOLDMAN

Machinery is the subconscious mind of the world.
GERALD LEE

Business succeeds rather better than the state in imposing its restraints upon individuals, because its imperatives are disguised as choices.
WALTON HAMILTON

It isn't important to come out on top, what matters is to be the one who comes out alive.
BERTOLT BRECHT

A great society is a society in which men of business think greatly of their functions.
ALFRED NORTH WHITEHEAD

Man is a beautiful machine that works very badly. He is like a watch of which the most that can be said is that its cosmetic effect is good.
H.L. MENCKEN

Wherever anyone is against his will, that is to him a prison.
EPICTETUS

Certain employers believe in treating men as machines, as so many productive units to be utilized to the best possible advantage of the employers, regardless of the effect of this treatment upon the men. Such an attitude reflects stunted intellect. Moreover, what does such a policy bring in return? The majority of those serving such masters repay them in kind. They feel that their employers are trying to get the best of them, and they beat them at their own game.
B.C. FORBES

He who does his work like a machine grows a heart like a machine, and he who carries the heart of a machine in his breast loses his simplicity.
TZU-GUNG

I must create a system or be enslaved by another man's.
WILLIAM BLAKE

People who are masters in their own house are never tyrants.
NAPOLEON

He who does not know the mechanical side of a craft cannot judge it.
GOETHE

More than 3,000 "Thoughts," indexed by author and subject, are available in one volume bound in blue cloth and stamped in gold. Send $18.50 with your order to: Forbes Subscriber Service, 60 Fifth Avenue, New York, N.Y. 10011. Please add sales tax on orders in New York State and other states where applicable.

The society of money and exploitation has never been charged, so far as I know, with assuring the triumph of freedom and justice.
ALBERT CAMUS

Among the smaller duties in life, I hardly know one more important than that of not praising when praise is not due.
SYDNEY SMITH

Omnipotence is bought with ceaseless fear.
PIERRE CORNEILLE

Authority is never without hate.
EURIPIDES

The threat of power is general; power is merely specific.
EARL SHORRIS

A Text . . .

For I am a man under authority, having soldiers under me: and I say to this man, Go, and he goeth; and to another, Come, and he cometh; and to my servant, Do this, and he doeth it.
MATTHEW 8:9

Sent in by Nathan Tyler, Miami, Fla. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Nothing is more gratifying to the mind of man than power or domination.
JOSEPH ADDISON

It is always safe to be dogmatic about tomorrow.
HEYWOOD BROUN

THE NEWEST WRINKLE IN BONDS: POISON PUTS

STEPHEN CANNELL: THE GENIUS BEHIND TV'S WISEGUYS

DANIEL ORTEGA'S NEW FRIENDS

AUGUST 22, 1988

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Cover illustration by E.T. Steadman

48 *Stephen Cannell*

AUGUST 22, 1988
VOLUME 142
NUMBER 4

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 128 AND 129.

COVER STORY

69 (Dangerous) Fun And Games In The Foreign Exchange Market
By Richard L. Stern
Billions have been made in foreign exchange trading as the dollar has dropped. But the game is getting tougher—and a lot of the players will be giving back their profits.

COMPANIES

34 Sun Oil Co.
By Toni Mack
Now that it's splitting itself in two, will Texaco be next?

37 Micron Technology, Inc.
By Kathleen K. Wiegner
The memory chip shortage has finally put Micron Technology in fat city.

60 The Up & Comers: Carmike Cinemas Inc.
By William P. Barrett
A shrewd young movie exhibitor and his father are making money putting big screens in small towns.

61 Edward D. Jones & Co.
By Matthew Schifrin
Attention small investors: This brokerage will be happy to handle your little account, and maybe unload some overpriced junk on you to boot.

85 The Up & Comers: Merge In Haste, Repent At Leisure
By Pranay Gupte
By chasing cheap restaurant leases, Sant Singh Chatwal caused some big losses for shareholders.

88 The Up & Comers: Midlife Career Switch
By John Heins
San Francisco's Max Messmer threw over a $1-million-a-year job to become his own boss. How's he doing?

96 First Of America Inc.
By Jack Willoughby
Thinking small, this Michigan lender has grown into a major—if little noticed—regional institution.

98 Consolidated Freightways
By Marc Beauchamp
Tonnage rates are lower than they were six years ago, but this trucker has grown rapidly and has stayed profitable.

INDUSTRIES

35 Collateral? Interest Coverage? Who Needs Them?
By Allan Sloan
With their casino bonds, Donald Trump and Merv Griffin are breaking new ground in creative finance.

56 "We Will Remove The Cobwebs"
By Tatiana Pouschine
Among luxury items, fine china has been a laggard. Baron de Schorlemer plans to change that.

90 Power Play
By James Cook
Canada's exportation of hydroelectric power to the U.S. is a case where both buyer and seller have much to gain and almost nothing to lose.

PROFILE

48 What Stuff Are Dreams Made Of?
By Deirdre Fanning
Is it dangerous for kids to daydream too much? Stephen Cannell did, then turned his fantasies into a fortune.

INVESTING

44 As I See It: Bears Will Be Bears
By Peter Brimelow
The voice of inflation once more is heard in the land. Should we take it seriously? No, says John Rutledge.

Capital ideas are a growth industry at GE Capital.

There's no line labeled "Ideas On Hand" in the GE Capital annual report. Nonetheless, our capital ideas are as important an asset to our company as the dollars listed on our balance sheet.

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A few of the capital ideas we've been growing lately are described below. If you'd like to hear more about any of them, call GE Capital at our special toll-free number: 800 243-2222. Better yet, let our idea-growers get to work on your specific problems.

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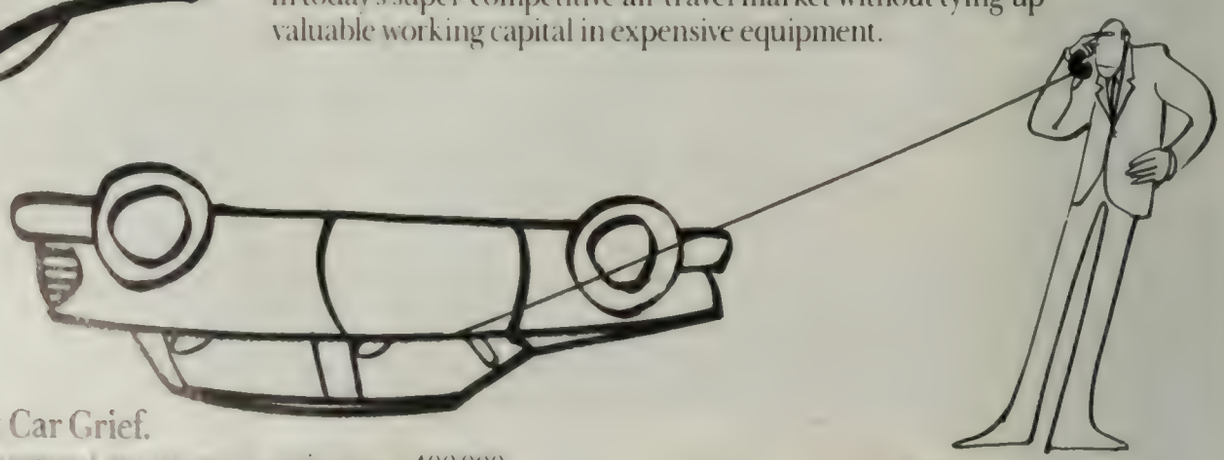

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GE Capital

56 *Fine china*

73 *Karl Otto Poehl*

114 *John Grace*

114 The Funds: Some Call It Piracy
By Kathleen Healy
If you think blood gets thin with the passing generations, then you haven't met John and Oliver Grace.

115 The Money Men: Guillotine, Anyone?
By Peter Brimelow
Ken Smilen correctly predicted that Reaganomics would cause a bull market in the 1980s. What does he think will happen now?

126 Streetwalker
Long Island Lighting Co.; Reebok International; Stride Rite Corp.; Melville Corp.; Carson Pirie Scott.

INTERNATIONAL

38 Daniel Ortega's New Friends
By Pranay Gupte
Nicaragua's Sandinistas have trouble at home, but they're doing great with the Japanese and Europeans.

73 "We Shouldn't Have Illusions"
By Peter Fuhrman
For the future, Karl Otto Poehl, West Germany's chief banker, sees a falling dollar and instability aplenty.

NUMBERS GAME

52 Grope In The Dark
By Jill Andresky
Investors have been burned by HMOs' expense estimates. What are the accountants doing about it?

MARKETING

100 The $4,300 TV
By Jeffrey A. Trachtenberg
Discounting has cut profits of the best-known consumer electronics firms. So what can be done?

SCIENCE & TECHNOLOGY

102 Have Lab, Can Travel
By Gary Slutsker
Battelle Memorial Institute isn't as famous as the technologies it develops, and that suits Battelle fine.

PERSONAL AFFAIRS

104 Instant Asia
By Pranay Gupte
Singapore is a criminal's nightmare but a traveler's dream city. Also: Storing art.

MONEY & INVESTMENTS

31 What's Ahead For Business
32 The Forbes Index
111 The Forbes/Wilshire 5000 Review

DEPARTMENTS

8 Side Lines
10 Follow-Through
14 The Informer
16 Readers Say
19 Fact and Comment
24 Other Comments
27 Fact and Comment II
130 Flashbacks
132 Thoughts

COLUMNISTS

117 Ben Weberman **Poison Puts**
118 David Dreman
119 Ann C. Brown
122 Ashby Bladen
123 Mark Hulbert

FACES BEHIND THE FIGURES

108 **Stanley Hiller,** *Levolor Lorentzen Inc.*
108 **Wendell Williams,** *Consultant*
108 **David Sheridan,** *Sheridan Catheter Corp.*
109 **Marc Viénot,** *Société Générale*

THE ANNUAL MUTUAL FUND SURVEY APPEARS IN OUR NEXT ISSUE, SEPTEMBER 5.

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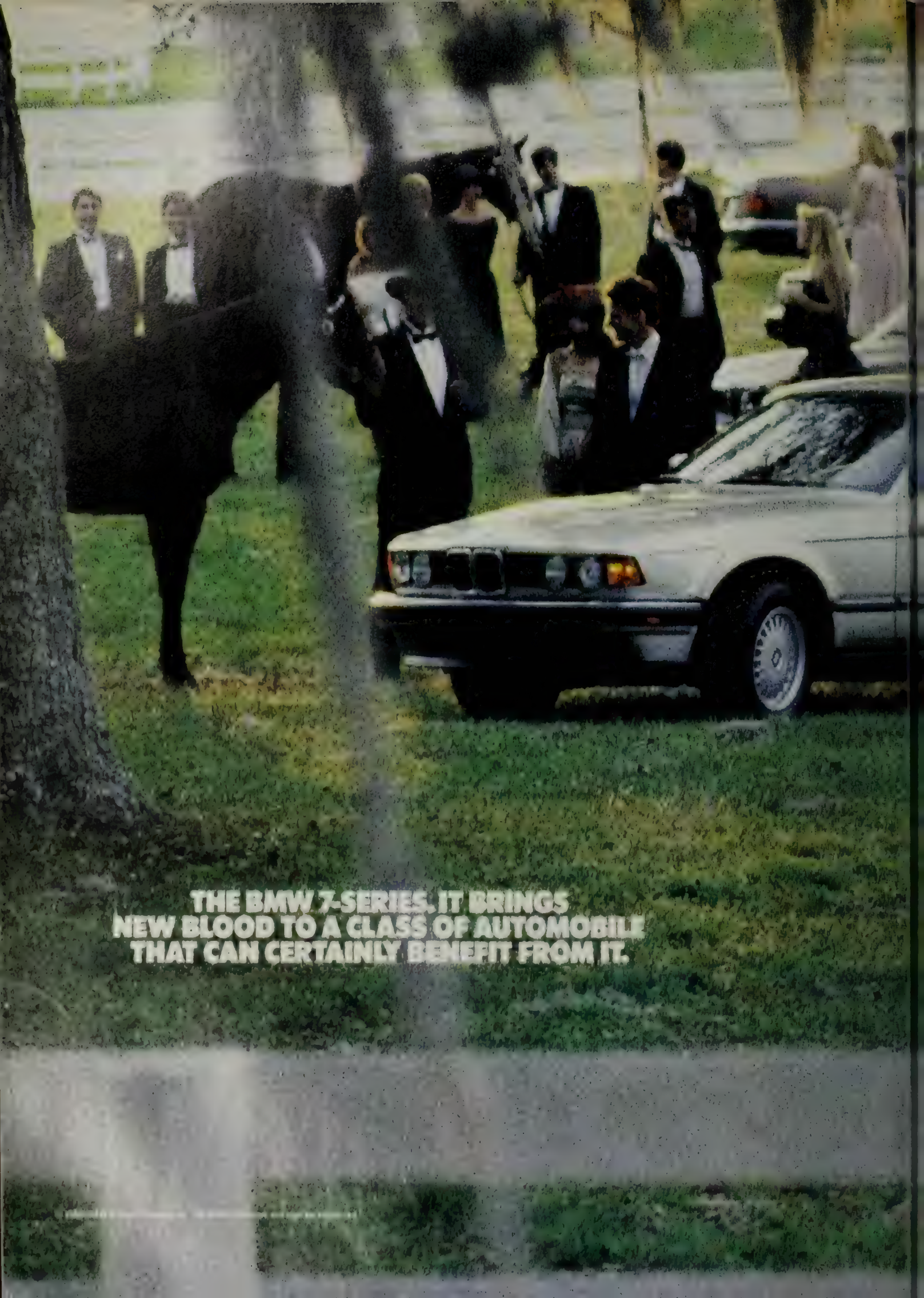
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Side Lines

A pessimistic view on the U.S. dollar

In an interview with Peter Fuhrman, "We shouldn't have illusions," starting on page 73, Otto Poehl, Germany's equivalent of Alan Greenspan, tells why he thinks the dollar is still too high. The bottom line of this influential banker's view: Forget about currency stability; violent fluctuations will continue for the foreseeable future. Starting on page 69, Richard Stern tells how dealers profited from this volatility to the tune of $5 billion last year. (He also warns that these profits could turn into tremendous losses that would shake the world financial system.)

Danny Ortega's new pals

Susan Meiselas Magnum

Pranay Gupte with Daniel Ortega

Daniel Ortega, the head of Nicaragua's Marxist-Leninist junta, gave a three-hour interview to our Pranay Gupte—after taking Gupte on a carefully staged trip to the Nicaraguan countryside. Is Ortega upset about the Soviet bloc's unwillingness to pour more money into his country? Not terribly. Ortega and his aides pointed out that Japanese, Western European and Canadian investors and governments were more than taking up the slack. He also talked about his warm admiration for Michael Dukakis and the high hopes he and his friends have for a Democratic victory this November. "Daniel Ortega's new friends" starts on page 38.

Triple-threat man

Unless you're a close watcher of screen credits on TV shows, you've probably never heard of 47-year-old writer-producer-studio boss Stephen Cannell. But you ought to know about him: Cannell is one of the entertainment industry's hottest entrepreneurs—and a fascinating personality. "What stuff are dreams made of?" by Deirdre Fanning starts on page 48.

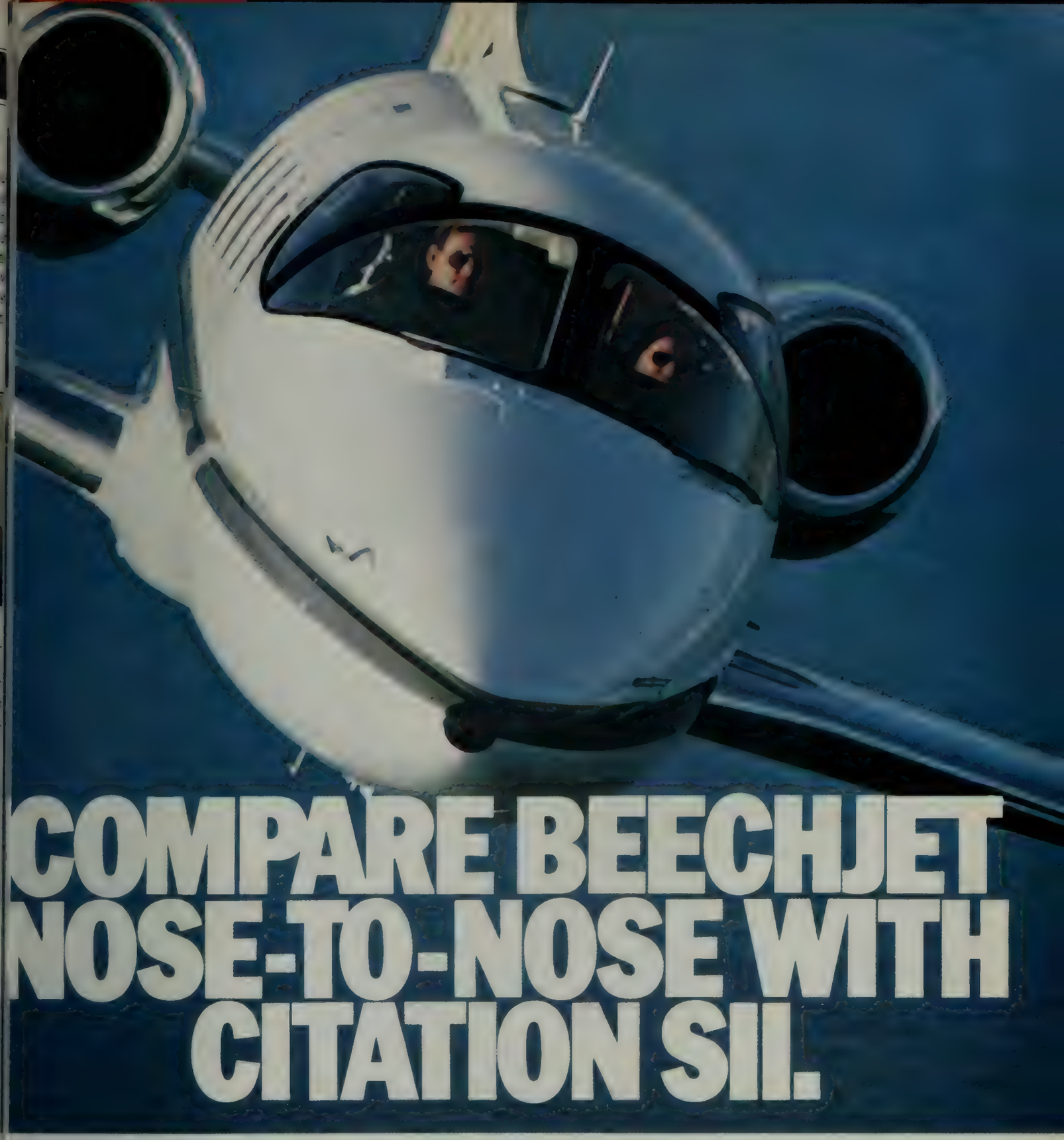
You are what you eat on

In an age when luxury products are booming and $10,000 wristwatches and $2,000 men's suits are almost commonplace, most affluent Americans apparently eat most of their meals off cheap dinnerware. Tatiana Pouschine tells how some smart marketing folk plan to persuade you to set a different table every night—and to stop saving the good china for guests and weddings. "We will remove the cobwebs" starts on page 56.

The bond beat

Most investors seem more interested in yield these days than in common stocks, and so there's a lot going on in the bond market. Poison puts, for example; columnist Ben Weberman talks about the advantages and pitfalls for investors in this new bond feature (page 117). Mark Hulbert summarizes what the smarter letter writers say about bonds now (page 123). And in "Collateral? Interest coverage? Who needs them?" (page 35), Allan Sloan shows how Donald Trump and Merv Griffin are breaking new ground in imaginative junk bond financing.

James W. Michaels
Editor



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Time to climb. Sea level to 41,000 ft. (minutes)	**22**	39	24
Rate of climb (sea level, standard day, feet per minute)	**3960**	3040	3650
Cruise speed (mph)			
29,000 feet	**530**	469	NA
35,000 feet	**516**	462	489
41,000 feet	**507**	436	471
Range (statute miles, crew plus 4 passengers, comparable speeds)	**2220**	2190	2265
Cabin width (in.)	**59**	59	59
Cabin height (in., main floor to ceiling)	**57**	52	52

*Citation V performance based on presently available figures.

Bottom line? The Beechjet has a big performance advantage over the Citation SII—and the Citation V, which won't even be available for another year or more.

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Follow-Through

Sorry, wrong number

June 13, 1988

Last May 1, US Sprint, the long-distance phone company jointly owned by GTE and United Telecommunications, finished installing the country's first all-optical-fiber phone network. FORBES noted that after years of frustration and a total investment just short of $5 billion, Sprint seemed on the verge of paying off for its long-suffering parents, possibly as early as next year.

What we didn't foresee was that GTE would use the impending turnaround as an opportunity to get out. Last month the Stamford, Conn.-based company announced it had agreed to sell United Telecom an additional 30% stake in Sprint and give it the option of purchasing GTE's remaining 20% interest any time between the end of this year and the end of 1995. GTE will get out whole but without a profit. GTE stock fell slightly on the news.—**Robert T. Grieves**

Losing jobs

June 1, 1987

In return for permitting shippers to send containerized shipments to the Port of New York, the tough longshoremen's union demanded and got a guaranteed annual income for its members whether they work or not. The consequence was well-paid idleness for many of the members but disaster for the Port of New York. Funded with a levy on container tonnage, the deal made New York uncompetitively expensive. New York has had some success with reducing labor costs over the last year or so: The New York Shipping Association and the International Longshoremen's Association recently reduced by 51% the assessment on cargo originating from, or destined for, locations beyond 260 miles of the port, to $2.85 a ton.

The reduction makes New York more competitive for cargo from afar, but competition for midwestern cargo remains intense as Norfolk nears completion of its inland container port in Front Royal, Va. and Baltimore prepares to go on-line with a rail consolidation program. While the reduction should help, New York remains the most expensive port on the East Coast.—**Neal Santelmann**

Suspect bolts, round two

June 13, 1988

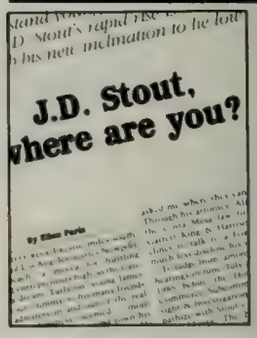
Bogus bolts, FORBES recently reported, have become a huge problem for the Pentagon. Made of cheap boron steel but marked to indicate high quality carbon steel, the counterfeit bolts have turned up with alarming frequency in new tanks and other military vehicles, as well as in civilian bridges and buildings. Late last month 51 congressmen, headed by House Oversight & Investigations Subcommittee Chairman John Dingell (D–Mich.), introduced legislation calling for, among other things, fines of up to $250,000 and jail terms of up to ten years for selling bogus bolts through interstate commerce. Meanwhile, the Defense Criminal Investigative Service and U.S. Customs are pursuing 26 criminal investigations of their own in the matter.—**R.T.G.**

Return to prosperity

Dec. 28, 1987

FORBES figured miner Asarco Inc. would earn $7 per share in 1987 and more in 1988.

So far, so good. Earnings for 1987 came in at $7.34 per share. In this year's first half the company netted a hefty $2.10 a share, versus a loss of 9 cents in the same period last yea Asarco has made those handsome r turns even though copper prices a already off 17% from their peak la December. With new efficiencies i place, Asarco now looks set to remai profitable even if prices fall below la year's lows. Says Chairman Richa Osborne, "We are emphasizing thin that give us earnings leverage, such a operating smelters 90% of the tim instead of 80%." Not so many yea ago, Asarco was on the ropes. On more example of how tough times ca toughen some companies even if the kill others.—**Alyssa A. Lappen**



Found, J.D. Stout

Dec. 1, 1986

Nearly two years ago FORBES asked "J.D. Stout, where are you? Something was clearly amiss. Youn "Jimmy" Stout had been one of south ern California's favorite real estat entrepreneurs. *Los Angeles* magazin proclaimed Stout one of the area wealthiest individuals. *Money* maga zine featured him drinking Dom Pe ignon aboard his 94-foot yacht.

But when FORBES went looking fo the golden boy, his headquarters o fices were deserted. "Gee, a lot of pe ple have asked me where they ca find him [Stout]," said a receptionis in a nearby office.

Stout, now 44, has been living i Aspen, Colo. Last month a federa grand jury in Los Angeles served Stou with an 11-count indictment. charges that Stout accepted $1.5 mil lion in kickbacks on the purchase c some apartment buildings he and ai ing Beverly Hills Savings & Loa bought together. According to the in dictment, Stout arranged with real es tate broker Haun, Raab, Webster & Co. to get from one-third to one-hal of all the commissions it collected o the buildings that the Stout-Beverl Hills S&L joint venture bough through Haun. If convicted, Stou faces up to 55 years in prison and $110,000 fine. In court on Aug. 1 Stout denied all charges. The trial be gins Oct. 4.—**A.A.L.**

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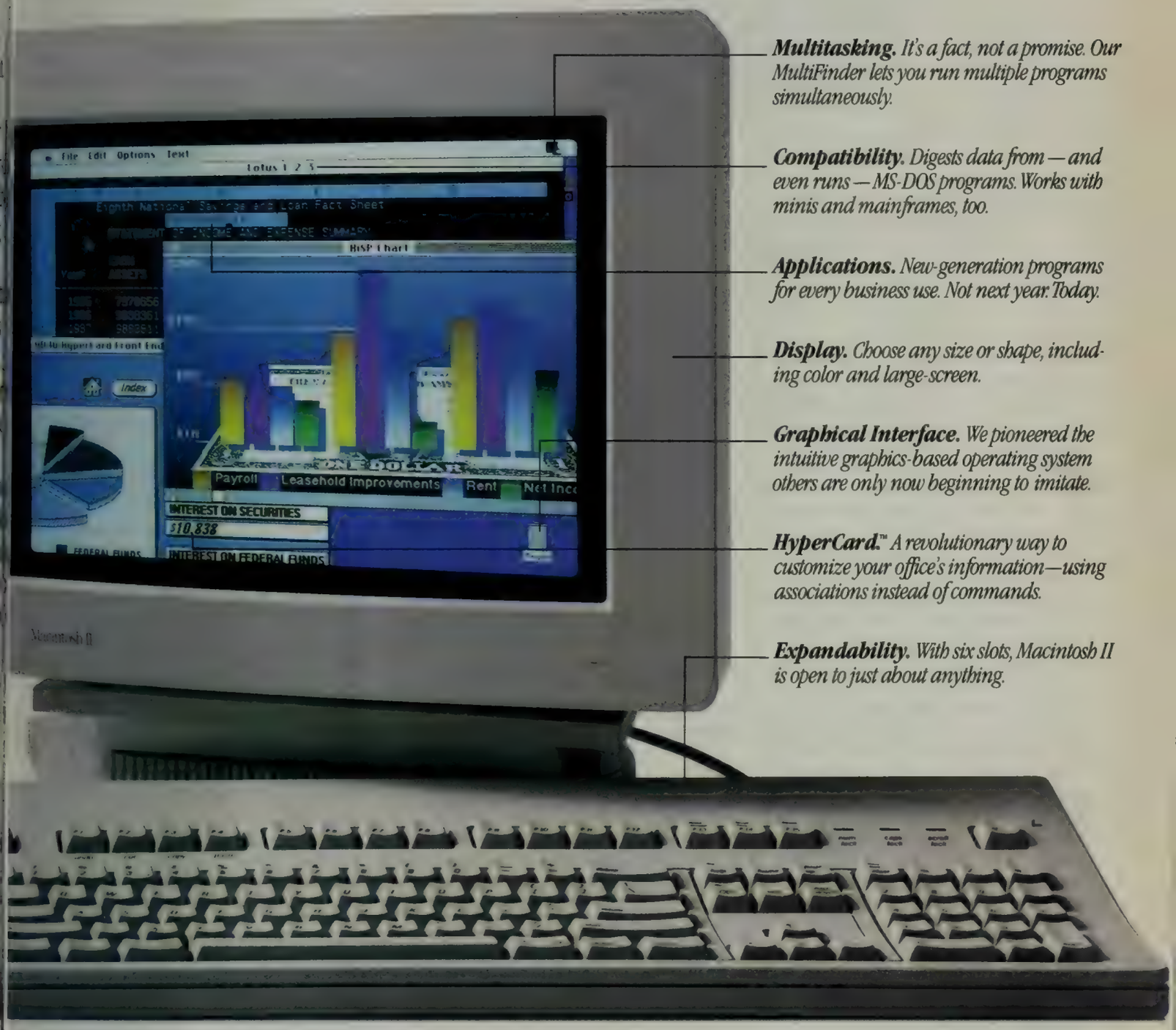

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Forbes Informer

Edited by Gretchen Morgenson

Illustrations by [illegible]

Kemper and the Duke

Michael Dukakis' Massachusetts has the highest auto insurance claims rate in the nation, largely because of car thieves, aggressive lawyers and bad drivers. But the insurance commissioner, appointed by the governor, sets the rates so low that insurers almost automatically lose money: an estimated $1.2 billion since 1982, including $353 million in 1987. Fireman's Fund bailed out last year, but regulators extracted a $45 million exit fee. Yet Kemper Group, the Long Grove, Ill.-based insurance outfit, extricated itself after losing $43 million there last year, but without jeopardizing a $350 million portfolio of commercial property-casualty business. How? Kemper got creative—and played presidential politics.

Kemper negotiated with the state to set up a nonprofit mutual company that would take over its $160 million in auto policies, in exchange for the right to keep selling other insurance in Massachusetts. It also publicized the fact that 1,000 Bay State jobs would be lost if Kemper were to shut down its insurance operations.

The politicking worked. Just last month Kemper put up $119 million to capitalize Arbella Mutual Insurance Co., with Kemper Corp. (the group's publicly owned entity) taking a $12 million aftertax hit in the third quarter as its share of the expense. Kemper also handed over to the new company its small—$8 million—but profitable homeowners' insurance business. Legislators and Governor Michael Dukakis ratified the deal. Kemper Corp.'s executive vice president for insurance, Gerald Maatman, says that Dukakis' aides became ever more receptive to the plan as the presidential campaign progressed. "We sensed very much that they'd just as soon avoid publicity about job losses and auto insurance problems," Maatman says. "But they might not admit it. Naturally not.—**Rick Reiff**

Schwab's newest squeeze

Just how bad are things in the brokerage business these days? Ask Charles Schwab, the nation's largest discount broker. With six-month 1988 earnings down 84% from last year's, Schwab is searching high and low for new revenues. So far, it's come up with this: formerly free IRA accounts. The firm has quietly begun levying fees—$18 a year—on customers wishing to maintain their IRA accounts at Schwab. It's not a lot of money, but with 350,000 IRA accounts in-house, every little bit helps.

Dino's back

Look out, world, movie mogul Dino De Laurentiis is on the loose again. After bombing out in the U.S., DDL is taking his act abroad. In July he announced the creation of Film & Television Corp., an impressive-sounding name for "a company specializing in acquisitions of theatrical films and television product from independent producers for the foreign market." The precedents are hardly auspicious. De Laurentiis, you may recall, resigned in February from De Laurentiis Entertainment. The company came public in 1986 at around $14; today its stock trades around ½.

Dana Fineman Sygma

Movie mogul Dino De Laurentiis
Will he have better luck abroad?

And now, a drought play

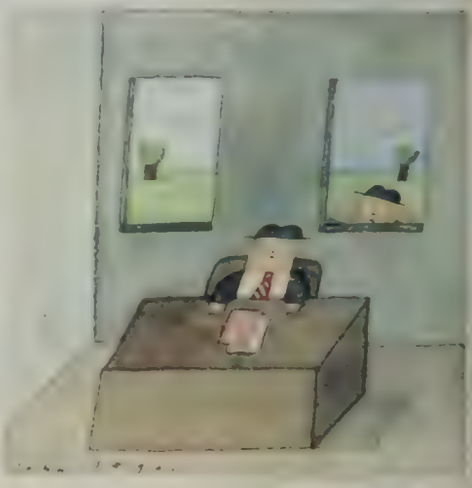
It sure didn't take long for Wall Street to figure out how to make money in the drought. Midway through one of the drier summers on record, promotional material for Aqueduct I, a private master limited partnership, hit brokers' desks at Prudential-Bache Securities Inc. Promising investors "an exclusive opportunity to own water rights" and "participate in the potential growth of a finite resource," Aqueduct general partners will reportedly buy water rights from farmers and sell them to industry. With customers uninterested in buying stocks, brokers are scratching for new merchandise. Fair enough. But water rights?

Big bark, any bite?

Remember Diasonics, Inc., one of the hottest high-tech issues to come out in 1983, and one of the quickest to flop? Initial offering price was $22, but within a year it hit 6. Now, with the stock at 2½, the struggling medical equipment maker has surfaced as the object of a baffling buyout.

Medical technology whiz Albert Waxman founded Diasonics; but after numerous big-league blunders, he lost control of the company in 1984 and resigned as an officer last November and from the board in May. Still, he owns about 2 million Diasonics shares and carps periodically about what he calls misguided management running the company now.

In June and July, with Integrated Resources, Inc., a New York-based company that used to peddle tax shelters and now purveys various financial services, Waxman bought almost 2 million more Diasonics shares and showed interest in buying the rest of the company. If successful, Waxman and pals plan to sell off practically everything but the company's mag-



netic resonance imaging business, which allows physicians to identify internal ailments without surgery. Trouble is, this business is just now running into serious competition from General Electric, which dominates the similar CAT scan market and intends to do the same with MRI.

Waxman, who created Diasonics but couldn't run it, has teamed up with people who don't know much about medical services. But one wonders: If Waxman couldn't do it right the first time, what makes him think he can do it right the second time?

Unfairness opinion

Little wonder the public is staying away from the stock market. Listen to this one: Meyers Parking System Inc., a New York City owner and operator of parking facilities, is about to go private. Meyers doesn't make a lot of money, but it sits on fabulous assets, including 171,500 square feet that would be some of the most valuable real estate in Manhattan if high rises were built on it.

Meyers is 45% owned by the founding Fink family and 35% owned by the family of Edward S. Gordon, one of New York's smartest real estate minds. The Fink-Gordon group first offered $22 for each of the 550,000 public shares, then agreed to pay $29.50 to settle the inevitable stockholder lawsuits.

Enter Victor Potamkin, a wealthy New York City car dealer. Potamkin has offered several times to buy the whole company for $40 or more, and told FORBES he's still interested. Yet Bear, Stearns & Co., which is getting $125,000 for a fairness opinion, says $29.50 is a fair price. Why? Because Fink-Gordon says it won't sell at $40. It won't sell at $40, but the poor minority shareholders should be happy with less than $30. Bear, Stearns, Fink and Gordon all refused to talk to us. Come on, fellas.—**Allan Sloan**

Asleep at Labor

According to an investigation just released by the National Center for Policy Analysis in Dallas (a study of six states in 1981), on average, one out of every four weekly unemployment checks is issued for the wrong amount. In 1985, 15.6% of all unemployment checks issued were overpayments. About $2.4 billion in benefits are paid annually to people not qualified to receive them. The Labor Department has chosen not to release these statistics. It says it's conducting its own report. Could it be waiting until after the November elections? Or are we just being suspicious?

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Readers Say

They care for bears

SIR: There is no accounting for taste: I happen to like the Pizza Hut bear advertisement better than the one depicting an oversize blueberry muffin *(Fact and Comment, July 11).*
—Plato Rosinke
New York, N.Y.

SIR: The Pizza Hut California ad was made by Californians for Californians—not stuffy, centimillionaire New York business magazine editors.
—Wayne W. Wright
Laguna Niguel, Calif.

SIR: I would ask you to guess which ad this California reader's teenage son has tacked to his bedroom wall. I doubt that Pizza Hut and Betty Crocker were targeting the same audience.
—Brent Osborne
Hillsborough, Calif.

Good question

SIR: Your article correctly points out that the former mandate of S&Ls was to take short-term savings and provide long-term mortgage money to their community ("Is anybody really fooled?" *July 11*). However, with deregulation S&Ls have become little more than unregistered and unsupervised mutual funds where the investor gets only a fixed coupon and ownership gets all the benefits, if any. With the mortgage money function of S&Ls now being well served by HUD/FHA, GNMA and FNMA, my question is, "Who needs S&Ls anyway?"
—William C. Hunter
Washington, D.C.

I feel fine

SIR: Re your article "Nam returnees make good," *(July 11)* Since seeing the Dan Rather CBS special on posttraumatic stress disorder, I have shared the sense of frustration your article addresses. As a decorated Vietnam combat veteran now in his mid-40s who is also a lawyer and senior federal executive, I have been telling people for years that I am the norm: I get up in the morning, put on a necktie, kiss my wife and baby good-bye and go off to the office. Vietnam is an integral part of the experience of my generation, and a particularly meaningful part for those of us who saw combat there. For very few has it been the debilitating trauma depicted by Rather and CBS.
—Thomas E. Harvey
Deputy Administrator of Veterans Affairs
Washington, D.C.

Mis-ordnance

SIR: Your comments on "Perestroika for the Pentagon" missed the target *(Fact and Comment II, July 25).* Don't blame military people for the venality of civilian executives in the Department of Defense who succumbed to the blandishments of equally venal defense contractors and consultants. The fault in this instance was not in the system, but with a few greedy people who manipulated it to their own enrichment.
—John F. McCloskey Jr.
Philadelphia, Pa.

SIR: The procurement system may be in need of streamlining, but it is not flawed so much as to make bribery and trading of inside information inevitable. It is greed which is the cause of the scandal, the greed of flawed people, not the system.
—Michael J. Fulca
Arlington, Va.

SIR: Your confusing discussion about arms procurement leaves me wondering if you have any idea of what you're talking about.
—Richard M. Munson
Spokane, Wash.

Tuxedo tales

SIR: "Tuxedo" may well be a Park *(Fact and Comment, July 11).* It is also, according to my musical memory, a Junction. But it is surely just as true that "black tie" is not a dinner jacket; it is an accessory generally worn with a dinner jacket.
—George Thomas Wilson
Rolling Stone
New York, N.Y.

Give or take a billion

SIR: Since your last issue about billionaires omitted my name ("The world's billionaires," *July 25*), I have

een embarrassingly besieged by calls rom friends wanting to know what inancial catastrophe has befallen me. not only own 100,420,000 shares of /alhi, Inc. stock, I also own 2,000,000 hares of Keystone Consolidated, over 00,000 acres of land in south Louisina and scores of thousands of acres of eal estate in Washington, Arkansas, Colorado and Pennsylvania.
—Harold Simmons
Dallas, Tex.

SIR: I am shocked that you would put "cocaine thugs" in the same milieu as espectable businessmen. They have idded nothing to our society except iolence, misery and corruption.
—Pauline Brooks
Fort Lauderdale, Fla.

SIR: It was quite disturbing to read that "the Dunes casino is shut down." As I sit in my office at the Dunes Hotel, I can assure you that the Dunes casino is not shut down and that we are operating on an ongoing basis.
—Peter Alpert
Vice President-General Counsel,
Dunes Hotel & Casino
Las Vegas, Nev.

Big science

SIR: Sooner or later someone interested in eliminating acid rain, the greenhouse effect, black lung disease, air pollution, the ozone problem and America's trade deficit will come up with the idea of the gradual replacement of gasoline-powered passenger autos by electric cars powered with energy generated by nuclear power plants ("We're not going to freeze in the dark," *June 27*).
—Douglas W. Booth
President,
Duke Power Co.
Charlotte, N.C.

I hated it!

SIR: I find it hard to believe that FORBES assumes advertisements alone account for sales ("Terrific! I hate it," *June 27*). With American Isuzu Motors, reclassification of certain vehicles by U.S. Customs required that Isuzu curtail shipments to its dealers. The dramatic drop in available stock resulted in the ensuing loss of sales. Advertising had nothing to do with it.
—Jerry Della Femina
Chairman,
Della Femina, McNamee WCRS
New York, N.Y.

THESE SAABS MAY DRAW AN OCCASIONAL GLANCE OR TWO. (OR THREE.)

Saabs have always had a reputation for their individuality, so to speak.

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Or, if it's really your lucky day, both of them.

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"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

CRAZY, ISN'T IT

Our economic health has never been better. The number employed is at an alltime high, unemployment close to an alltime low. Inflation is one-third of what it was in 1980. We've treaty-ed with Russia a cap in a major segment of nuclear proliferation. Peace—all aided and abetted by the Administration—threatens to end the Iran-Iraq war and the Angolan civil war, and is even a slim possibility in Nicaragua. In the past eight years, many major dictatorships have been replaced by functioning democracies.

Yet Vice President George Bush, the Republican nominee to succeed the Republican President under whom all these enormously consequential good things happened, is way behind in today's preference polls.

What gives?

IT WOULD BE ROBBERY TO TAKE "Mc" FROM McDONALD'S

A major inn company wants to start a chain of "McSleep Inns," and McDonald's contends such a name would be "an outrageous case of trademark infringement and unfair competition."

It is absolutely right.

The inn outfit maintains that there are so many "Mc" this and "Mac" thats that the phrase has become generic. Without doubt, "Mc" and "Mac" have become prefixes widely used.

But the instant recognition as to what they denote derives entirely from the fabulous success McDonald's has achieved in merchandising Mc & Mac. It is absolutely wrong for someone to expropriate that prefix to sell a product or service that is unconnected with McDonald's because a customer might readily assume there was a connection.

That is what trademark law is all about.

Coke, as in Coca-Cola, went through a mighty battle to keep that name and connotation its own property. If elementary fairness isn't enough to provide McDonald's with simple justice, then the Coke case should make the case.

DUKAKIS IS WAVING THE FLAGS THAT USED TO BE REAGAN'S

Smart.

In the onslaught of widely spread rallies which Dukakis has pursued since the morning after his Atlanta triumph, he has relentlessly reiterated two themes: family values, and making the American dream as real for all as it has been for him. The audiences wave American flags and break out in *God Bless America* and other red-white-and-blue airs.

It's a virtual replay of the Reagan campaigns of eight and four years ago.

By design, not happenstance.

Says Governor Dukakis, "I think one of the things that we Democrats let the Republicans do is kind of assume that [patriotic] mantle."

He's attempting to seize it early. George Bush may find it tough-to-impossible to wrest that old Reagan flaghold.

GORBY'S GOT YET ANOTHER HUGE PROBLEM

Tacitly jettisoning Marxism for capitalism is one of Gorbachev's mammoth challenges. Minorities are another. Star Wars is a biggie.

But if he bites the power dust, it will most likely come about because he gets tripped up by the millions of Red tipplers. Maybe we should tell him what happened to us and our Volstead Act.

His efforts to dry out Russia's millions of heavy drinkers and to dry up its countless drunks are giving him very heavy headaches.

PACIFIC RIM IS KEY TO HUGE HUNK OF U.S. FUTURE

The countries that rim the Pacific Ocean are having a dynamite impact on the U.S. and world economies. As more of them burgeon, they will be increasingly altering the world's power equations. The Pacific Rimmers are on a roll whose foreseeable dimensions are unmeasurable.

The quicker we grow aware of the scope of what's ahead there, the sooner we will be a sizable part of who's ahead there. Our already flourishing West Coast has an ever-brighter future if we aggressively tune in to the who and how of what's happening on our vast Pacific doorstep.

To help U.S. awareness—and to increase our own awareness—FORBES' *Highlander* in the last six months has covered 30,000 miles, visiting 12 countries. In 23 stops we wined, dined, wooed and pumped the minds of 2,000 of their economic and political wheels and wives.

On various legs of this lengthy goodwill odyssey, my sons and I were joined in hosting and taking soundings by many eminences, including General Motors' Roger Smiths, Apple Computer's John Sculleys, Minolta's Sam Kusumotos, Ambassador and Mr. Archibald Roosevelt and Governor Michael Castle of Delaware.

At the outset we explained this objective: "The countries rimming the Pacific are increasingly where it's at these days for the businesses of America and for every multinational corporation. What happens in or to any one of us affects all of us. Our aim is to have this six-month encompassing voyage strengthen the friendship and the understanding that is more and more vital to the economic well-being of us all."

I think we made progress.

DRAWING BY WM. HAMILTON;
©1988 THE NEW YORKER MAGAZINE, INC.

"We're all nuts about the Pacific Rim"

Tim Farrow

In six months and 30,000 miles later, 2,000 people from 12 Pacific Rim countries

President Ford's son Jack was one of those who traveled with Christopher Forbes on the* Highlander *Pacific leg from Shanghai to Korea to Japan. He writes:

Before I departed for Shanghai and the *Highlander*, my father dug out some old letters he had written to the family in 1953 while on an inspection tour of Asia as a second-term congressman. He thought I might enjoy comparing my impressions from today with his from 35 years ago.

I could not help but be saddened as I read his enthusiastic reaction, on visiting Saigon, to the recent French pronouncement of independence for Vietnam, Cambodia and Laos. [Prepresidential Ford] wrote that "the sooner this autonomy is achieved . . . the greater the likelihood of victory for the anti-communist forces." How could this junior congressman ever imagine that he would give the order to pull out 22 years and 55,000 lives later!

It was with no small touch of irony that I read how impressed Dad was on a visit to an automotive rebuilding shop in Tokyo where there were jeeps and trucks damaged from the Korean War. He wrote they were being "transformed into highly serviceable vehicles by the use of Japanese plants and workers, plus the supervision and know-how of American personnel."

Could it be that this auto rebuilding shop was the beginning of the end for Detroit?

I suppose it is somewhat fitting that my father, who as President of the United States found himself faced with the collapse of Vietnam, the relentless economic surge of Japan, Korea and Taiwan, would have written as a young congressman back in 1953, "In the past few years there has been inordinate emphasis by our government on European problems. The Pacific area with its vast manpower and natural resource potential has been comparatively neglected. . . . It is encouraging to see that [the U.S.] is not treating this vast, underdeveloped area as a 'second cousin.' "

Hank Slack

Aboard, four "sons of . . .":
Deng Pufang, son of China's defense chief Deng Xiaoping; Christopher Forbes; Jack Ford, son of former President Gerald Ford; Mark Thatcher, son of Britain's Prime Minister Margaret Thatcher

Glen Davis

Conversation: *An earful from Thailand's Prime Minister Prem*

Glen Davis

In Thailand, *Their Majesties appoint MSF Knight Grand Cross. Looking on, U.S. Ambassador William Brown, GM's Roger Smith and Apple Computer's John Sculley*

Glen Davis

Upstaged: *MSF plays second fiddle to ET at PM's luncheon in his honor*

Lt. John Haas

Steven Brown

China speckled with capitalist slogans: *In Shanghai a planeload from Beijing and 100 Shanghai factotums carry away 120 goodie bags emblazoned "Capitalist Toolbag"*

HOT AIR REALLY TAKES OFF IN CHINA

Dear Mr. Malcolm S. Forbes:

I am very pleased to meet with you and Mr. Christopher Forbes again in Shanghai on the *Highlander.* You are very healthy and brilliant in talking, as 1982 in China, 1983 in France, have left me very deep impressions.

This is your second trip to China. Your last trip in 1982 is unforgettable, because at that time, it has been not long after our country's open policy, so foreigner travelling in China, especially the motor-cycle travel and the hot-air balloon free-flying created by you, is unimaginable. This is why your last trip has met several problems and got legendary experiences.

Since that time, more than five years has passed, the hot-air balloon introduced to China by you becomes more and more popular, and the multi-province travel has been a commen accurrence. As you know, Hong Kong-Beijing Rally has held three times.

Proviously, China has critisized United States for its sending "Peace Team" overseas, now China is the first socialist country which receives this "Peace Team", it is the results produced by our open policy.

The future of Sino-US cooperation is very bright, and more and more US things will be accepted by China. I do believe that your talents, your experiences and influence will contribute a lot to the future expansion of Sino-US cooperations and exchanges, and will benefit our country's moderizations.

—Yours Sincerely, Chen Hanzhang

Dear Mr. Forbes:

"This year we travelled through China with the balloons that you presented to us. We had balloon flying shows in the Provincial Sports Meeting of Heilongjiang, Shanxi, Henan, Anhui, Hunan and Jiangxi Provinces.

The shows were welcome by millions of people and were broadcasted by the television stations of the six provinces.

—Hao Dongshan

MOVIES

● **Big**—is big at the summer box office. In this light-hearted comedy, the gag of a 12-year-old overnight granted his wish to be man-sized has stretched a fun idea pretty far. ● **Coming to America**—Eddie Murphy taking himself seriously as an actor just isn't as funny as Eddie Murphy being Eddie Murphy. While there are moments of fun in Prince Eddie's coming to America from Africa in search of true love, they are widely separated. Let's hope this noble fellow goes back to being Eddie himself in his next film. ● **Die Hard**—Don't confuse this Bruce Willis flick with the rest of the genre. The ongoing flood of blood-and-gut-spilling antics of Messrs. Stallone and Schwarzenegger et al. have so deadened our senses that we yawn our way through their films if we still bother to go. Another slam-banger this may be, but it grips you from the first frame. It's a ● all the way through.

OUR OWN BOOK AD STEALS A BIT OF MOVIE AD TECHNIQUES

For as long as most of us can remember, movie ads have been studded with "judiciously" selected, exclamation-pointed quotes from reviews that were deadly critical. A movie critic can excoriate a new release as "This is so unbelievably bad one marvels that a studio could spend so much good money producing it." The ad will blaze two words in bold type—"Unbelievably good!"

The ads for our own new book, *They Went That-A-Way*, play a bit along the same lines. The *Wall Street Journal* reviewer wrote, "The title is appalling, the research is superficial, the style is slapdash, but the book itself is just plain old-fashioned, damned-hard-to-put-down, grim-and-gripping readable.

"One thing Mr. Forbes has right: in his foreword he says that these stories are like popcorn, potato chips and peanuts. Whatever the book's failings may be, it's well-nigh impossible to just say no after reading only one of these stories about how what must eventually happen to us all has actually already happened to someone else."

Guess what 12 words we headline when trying to get you to buy a copy? *(See p. 110.)*

WITHOUT LOVING
there's no life.

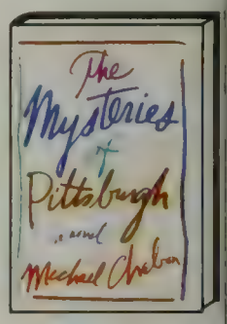
SURELY IT'S MORE FUN TO BE
than not to be.

BOOKS

● **A Time That Was—Irish Moments**—by Jill Freedman (Friendly Press/Outlet Book Co., $12.98). Jill Freedman knocked our eyes out by capturing on film the bloody reality of life as *Street Cops*. She did the same earlier in *Firehouse* and *Circus Days*. This volume is a love poem to Ireland that has little to do with emerald greenery. Freedman's shutter grabs the gritty lives lived by the wildly robust, grimly happy, very independent Irish. No photographer better gets to the gut of her subjects.

● **Athletes**—edited by Ruth Silverman (Alfred A. Knopf, $35). One hundred thirty-nine sometimes striking photographs. But to call them all "athletic activity" shots stretches things a bit. In his foreword, Bill Bradley writes, "What seems so special to me about the photography of athletes is that it preserves visually a moment in time. There is no before and no after, no feel of the ball, no sound of the crowd—just an instant of motion stilled forever by the camera and the photographer's eye." But too many of these are stiff, posed, arty—the reverse of instances of athletic motion.

● **The Mysteries of Pittsburgh**—by Michael Chabon (William Morrow & Co., $16.95). Too often in first novels authors shoot their wads. I hope Mr. Chabon has not. While his sometimes dreamish Pittsburgh passage into adulthood is overblown, his is a refreshingly unsour trip.



Excerpts: *Jane smelled interestingly of light exertion, beer, perfume, and cut grass. "What does your father do?" said Jane.*

He manipulates Swiss bank accounts with money that comes from numbers, whores, protection, loan sharks and cigarette smuggling. "He's in finance," I said. . . . I asked about the new auburn streaks in her hair. "Sun and lemons," she said. "You wear a loose-weave straw hat and draw some strands of hair through the holes. Then you juice the strands. I spent a lonely weekend juicing myself."

"Same here. That's from Cosmo, *that thing with the lemons," I said. "I read about it in your bathroom."*

"You read my Cosmo?*"*

"I read all of your magazines. I took all the love quizzes and pretended I was you answering the questions."

Compared to managing a modern corporation, carrying a three-headed dog back from Hell was a walk in the park.

Hercules didn't seem to have a big problem with Cerberus. After all, not only did he carry the dog up from the lower world, he also carried him back, without a hitch.

Modern-day management problems, like productivity improvement, should be so easy.

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Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Sublime FDR

How did Roosevelt hold together so many conflicting interests, opinions, personalities? Above all by a sublime self-confidence, the ultimate source of which no one could quite place.

The impish Senator Huey Long, by no means a friend of Roosevelt, summed it all up in a country anecdote: "[Herbert] Hoover is a hoot owl and Roosevelt is a scrootch owl. A hoot owl bangs into the nest and knocks the hen clean off and catches her while she's falling. But a scrootch owl slips into the roost and scrootches up to the hen and talks softly to her. And the hen just falls in love with him, and the next thing you know there ain't no hen."

—Irving Howe reviewing *FDR, The New Deal Years*, by Kenneth S. Davis, in the *New York Times Book Review*

The Fifth Tiger

King Bhumibol Adulyadej has ruled Thailand for 38 years. He is the longest-reigning king in the two-century history of the Chakri dynasty, and the 54 million Thais regard him with a respect verging on awe. The Thais also believe that the dynasty is the key to the country's remarkable stability.

Thailand, with an abundant agriculture (it is the world's fifth-largest food exporter) and a literate and adaptable work force, looks set to become the fifth "tiger" of Asia, joining South Korea, Taiwan, Hong Kong and Singapore in the ranks of the rapidly industrializing nations. Thailand's economy has grown at an annual average of more than 7% during the last 20 years, and in 1986 manufactured products overtook food as the country's leading export sector.

—Gwynne Dyer, columnist based in London, England

And They Don't Fade Away

Old wives don't die if they're getting alimony.

—David Brown, *Brown's Guide to Growing Gray*

Ethics?!??

Ethics? In the advertising business? Surely I jest. When I spoke recently at a Center for Communication seminar on "Ethics in Advertising," the moderator couldn't resist remarking that the discussion might be very brief.

Make money. Have fun. Be ethical. These are the three keys to a successful business career, given to me by my boss when I took my first job. Ethics? Some people don't think of that as a necessary part of a first-day briefing. It's not in their frame of reference. And that's exactly what the problem is.

—advertising executive Don Peppers, *New York Times*

Gotta Have Pizzazz

While waiting for a WALK light one day, I couldn't help noticing the man next to me was eating fire. He turned out to be a street performer, working for tips. He said he made $37,500 a year. In New York, you don't know if that's bragging or complaining.

The fire-eater said he came here to juggle for tips but soon found that it is not enough just to juggle in New York. No one notices you. You must also eat fire.

—*City Slickers*, by William E. Geist

Loo Poker Hand

One of the highlights of Princess Margaret's first visit ever to Newport was the small dinner given by local *bon vivant* David Ray. Everyone had a bit of a tiny chuckle when, upon her return from the powder room, Princess Margaret, very tongue-in-cheek, complimented David Ray on his choice of artwork in the loo—framed playing cards arranged in a poker hand.

The hand? A royal flush.

—Suzy, *New York Post*

Cats are smarter than dogs. You can't get eight cats to pull a sled through snow.

—Jeff Valdez, *The Third—and Possibly the Best—637 Best Things Anybody Ever Said*, by Robert Byrne

Bureaucrats

The senior staff of a bureaucracy will seldom volunteer key information. Bruce Smart, former head of the Continental Group, a $5 billion conglomerate, discovered this about subordinates when he became the Reagan Administration's under secretary of commerce for international trade. "They will answer the question you asked," says Smart, "but won't volunteer the answer to the question you should have asked."

—Paul Glastris, *U.S. News & World Report*

Loose Talk

You know, this is the way people in the Midwest say good-bye. They say good-bye in the house. They walk out with you and say good-bye at the car. Then they lean into the car and say good-bye. —Garrison Keillor, explaining the reason for his "Second Annual Farewell" show.

Be thankful we didn't name you Dweezil. —Sonny Bono, when his daughter, Chastity, complains about her name.

There was no way I could keep my wife and girlfriend happy at the same time. I know it's unfair, but you've got to roll with the punches. —Ted Turner, who's splitting from his wife.

—*US* magazine

"Would you mind not smoking?"

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

ONE OF THE MOST DESTRUCTIVE

aspects of the current trade bill is that it dilutes the President's authority on a number of critical trade matters, including initiating antidumping proceedings. Instead, the legislation gives that power to the U.S. Trade Representative. The protectionist idea behind the transfer: The Representative would be more responsive to parochial pressures from Congress. The President, the only official elected to promote and protect the whole national interest, would lose his discretion to weigh trade matters with other security and foreign policy considerations.

Senator Malcolm Wallop (R–Wyo.) is proposing an amendment to protect the President's current authority. If it isn't passed, the President should veto the trade measure.

The U.S. and the world would be far better off with no such bill rather than a bad one.

WE'RE ALL REPUBLICANS NOW—AT LEAST SUPERFICIALLY

The Democrats' get-together in Atlanta was a Republican convention in all but name. There hasn't been such a wholesale hijacking of another party's themes and symbols since 1840, when the Whigs portrayed their rich, aristocratic candidate, William Henry Harrison, as a hard-drinking commoner brought up in a log cabin, thereby aping the Democratic hero of that time, Andrew Jackson.

Burt Glinn/Magnum

The convention hall was festooned with red, white and blue; there were more American flags than people. Even the songs—*God Bless America, America the Beautiful* and *The Battle Hymn of the Republic*—were Republican staples. (Not a note was heard of *Happy Days Are Here Again*.) With few exceptions, the speeches sounded Republican themes: patriotism, family, competence in government, education, frugality, a strong defense, the American Dream. Spending programs were labeled "investments." The vice presidential nominee is more conservative than a good many Senate Republicans. Even Dukakis' acceptance speech was vintage Reagan, with its references to real-life individuals who performed heroic deeds.

Surveys show that these delegates were the most liberal ever. The Democrats have not changed their stripes; they are gleefully hiding them to win the election.

Ironically, the mastermind of this theft of Republican clothing is the man whose campaign manager almost a year ago was surreptitiously blowing the whistle on Joe Biden's plagiarism. In retrospect, Biden's crime wasn't the copycatting itself, but that he was using the words of far-out lefties instead of Ronald Reagan's.

To come back, the Republicans will have to do more than press charges of grand larceny. Instead, the party will have to wage the kind of campaign that by tradition it is absolutely loath to do—one based on actual issues. If the Democrats set the terms of the contest, i.e., personality, competence, campaign atmospherics, they'll win by a landslide.

In the past, Bush has been about as comfortable discussing specific issues and new ideas as a cat swimming in water. But if he adopts and sticks with a forward-looking, issues-oriented approach, the public will gradually see him as a man of grit and substance. Bush must convince anxious Americans that he truly understands their concerns about the future and that, with respect to economic growth and opportunity, the best is yet to come.

President Reagan himself should campaign vigorously, reminding people of where we were eight years ago and contrasting his record with that of Dukakis, which has plenty of flaws. (One example: If Massachusetts kept its books the way Washington does, Dukakis' fiscal record would look even weaker than the Republicans'.) The President could have fun pointing out: "Our policies have enabled us to enjoy the longest peacetime boom in history, and the Democrats call that a disaster. Dukakis rides the coattails of that boom and calls it a miracle."

Does the Vice President have the perspicacity to break the traditional Republican mold? Upon that question hangs the election.

It lowers the

Can a car quiet the wind? In a sense, that is precisely what the new Honda Accord LXi is designed to do.

The shape is aerodynamic. Clean all around. Windshield, windows and door handles are flush. Headlights are retractable.

The stance is low, over a newly refined double wishbone suspension system. Front and rear stabilizer bars are now larger. Stronger. So handling is more responsive

Overall, the design provides an effect sound barrier against wind and road no And while you may be traveling on eart at something less than mach speed, yo enjoy the simple comfort of quiet.

The experts at *Motor Trend* concur.

"Cruising the high-banked oval at to speed, passengers. . .carried on hushed

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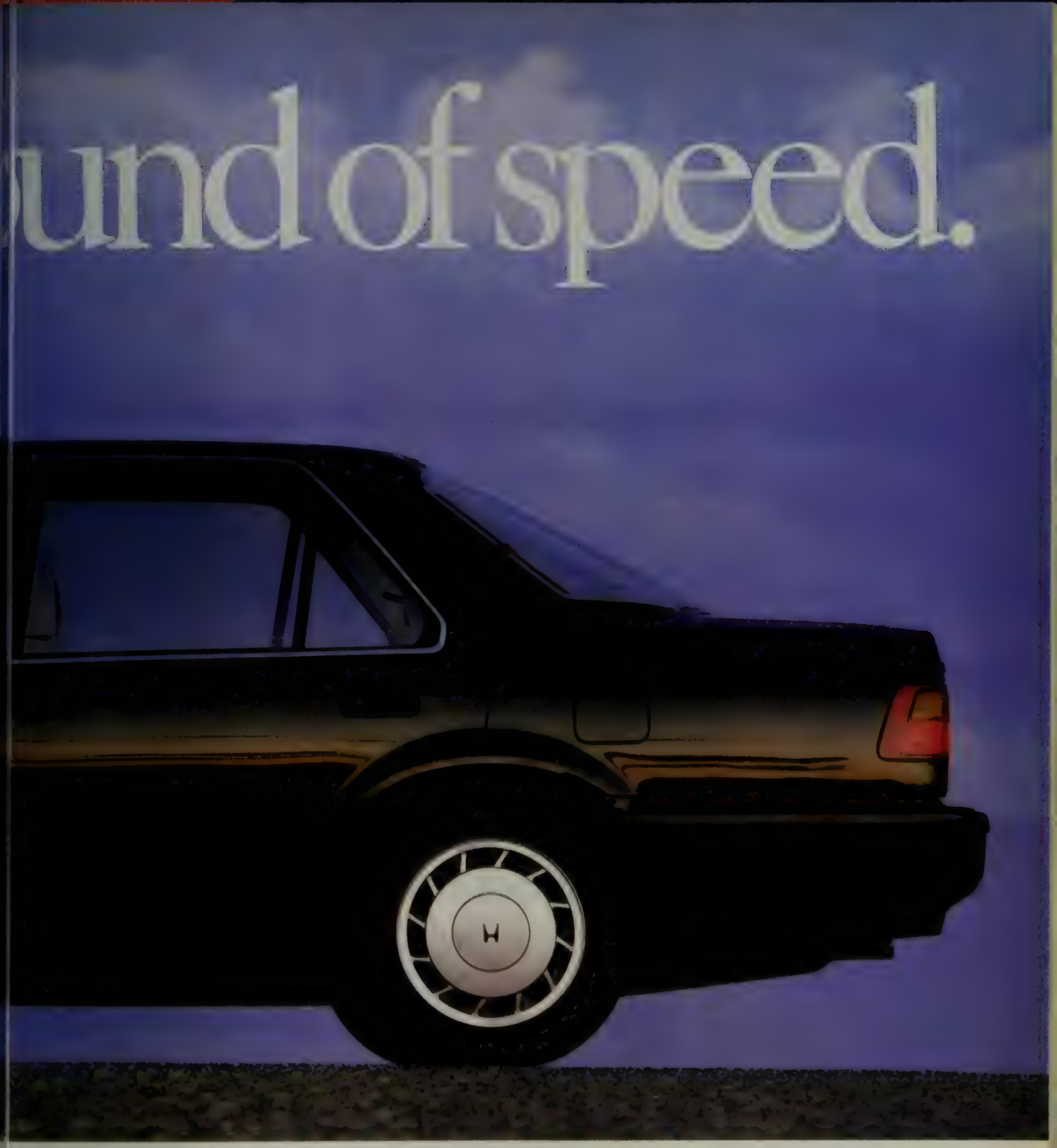
ound of speed.



versation in a dead-flat acoustic environ-
nt. Wind noise was minimal and road
se was dampened effectively."
n the cockpit, with your foot pushing
accelerator, you'll find something else to
oy. A new, 120 horsepower, fuel-injected
ine with 9% more takeoff power.
And while air conditioning is standard,
re's also a power-operated Moonroof. It has its own wind-deflecting device.

Will the Honda Accord, a car considered to be the standard by which other four-door sedans are measured, ever stop getting better? If you ask the engineers at Honda, the stratosphere's the limit.

HONDA

The Accord LXi

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Total Assets	DM 127.4 billion
Deposits	DM 76.3 billion
Bonds and Notes Issued	DM 42.9 billion
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Edited by Howard Banks

JAPAN BETS ON HIGHER PRODUCTIVITY

Japan's capital spending is roaring ahead

CAPITAL SPENDING BY JAPANESE MANUFACTURERS is booming, with a close to 19% increase for fiscal 1988 (the year to March 1989) forecast by the Bank of Japan in its *Tankan* short-term economic survey.

That follows a small decline in manufacturing investment in fiscal 1987, of 0.2% overall and 2.2% on new equipment, as Japanese companies adjusted to the strong yen.

The outcome could be an even larger increase. Economists at the Industrial Bank of Japan anticipate that their next investment survey, to be taken in September, could show a one-fifth upward revision.

Moreover, capital goods prices in Japan are showing negative inflation—actually falling a little in yen terms.

To meet domestic growth, but for exports, too

THE RECOVERY IN CONFIDENCE by Japanese manufacturers stems primarily from sharply stronger domestic growth—GNP has been growing at an annual rate of over 10% so far this year.

Partly this is the result of pump-priming, through public works such as new roads, airports and rail lines.

But all manufacturing is sharing in the prosperity. Capacity is at its tightest since 1980 and inventories their lowest since 1975; profits rose 25% in 1987 and 30% in the first half of this year.

This should worry U.S. and European companies because Japan's export industries are among the big capital spenders. Top spenders: microchip makers, for new production plant and also for R&D; ceramics makers, to package these chips; precision machinery; chemicals; bearings manufacturers; and a wholesale expansion of anything to do with information processing for both home and office. This kind of spending improves productivity and partly offsets the disadvantages of the strong yen. It makes Japan a tougher competitor.

Obviously being downplayed in the strong yen era are sectors like steel (where investment will fall this year), shipbuilding and oil refining.

It's a formula for continued tough trade problems

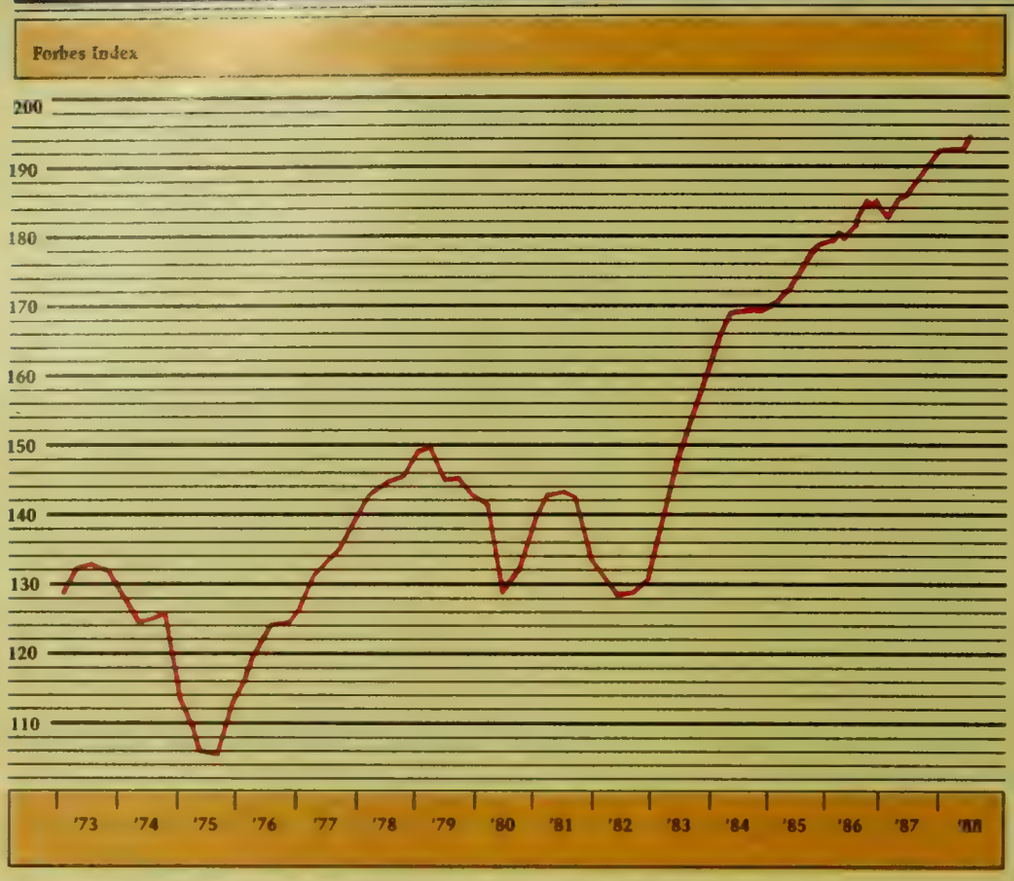
THIS INVESTMENT WILL ADD TO JAPAN'S already formidable competitiveness, making it harder for foreigners to export to Japan, as well as mitigating the effect of the stronger yen in third markets.

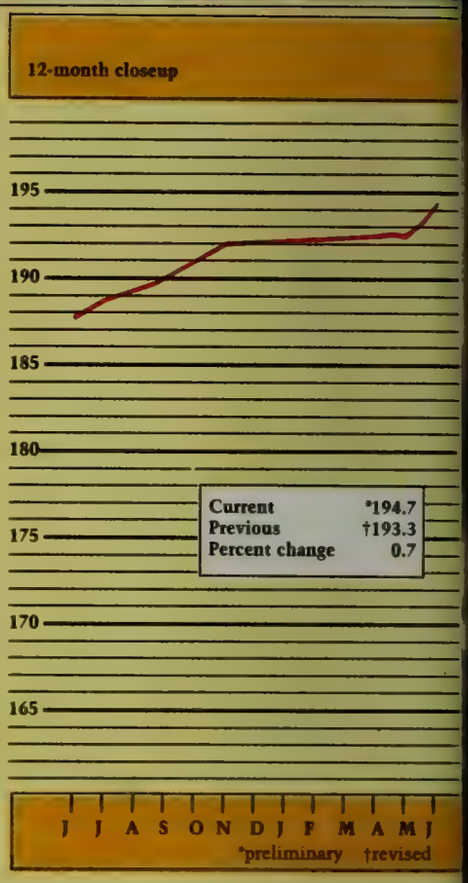
There's another trend that will work Japanese companies' way, too.

Outward investment by Japanese manufacturers is also roaring, rising by 40% this year. By 1992, the Japan Machinery Exporters Association estimates, 30% of Japanese-owned auto manufacture will be outside Japan (up from 11.5% now); 25% of computer manufacture (5.7%); 27% of machine tools (5.2%); 37% of home electronics like VCRs (25%); and 39% of office machinery (12.1%).

The Bank of Japan says Japanese trade has been buoyed by exports of machinery to equip yet more transplants, and by exports of parts, notably for automobiles. No wonder, then, that despite a cheaper dollar, by May U.S. imports from Japan were down only 5% on the same period in 1987.

The Forbes Index





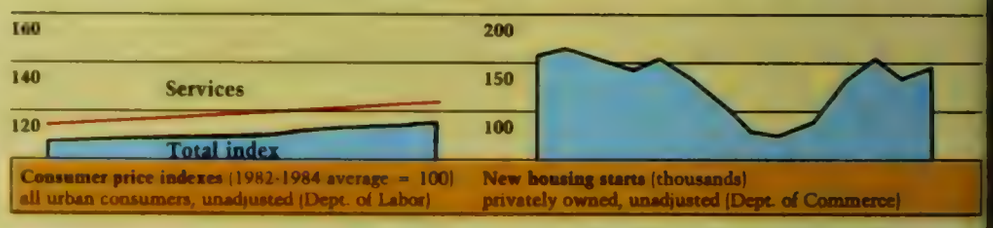
No recession here. In June the Forbes Index gained 0.7% after a slight dip in May, its first decline in 16 months. Fears of an economic slowdown were premature. The rebound was augmented by an 8.8% surge in manufacturers' new orders. A mild recovery in the housing market also helped. Housing starts rose 6.8% last month. Compared with June 1987, however, the 12-month total of housing starts is off 10.1%.

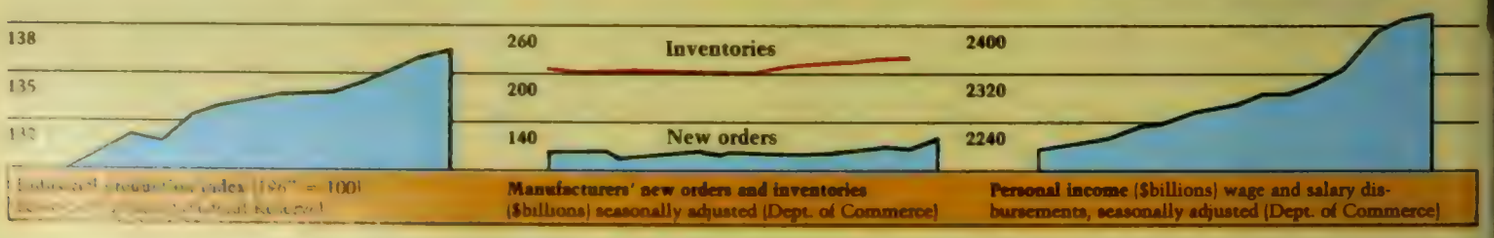
Personal income posted a healthy 0.7% gain in June, to an annual level of $2.4 trillion, putting it 3% higher than it was at the beginning of the year. The Consumer Price Index rose 2.3% during the first six months of 1988. This is still less than the 2.7% increase during the first half of 1987. For now, inflation appears to be under control.

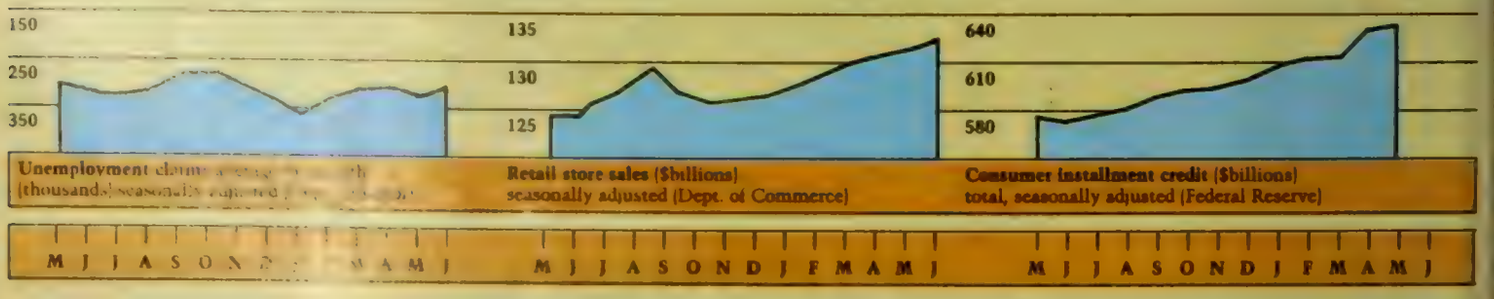
The Forbes Index Components

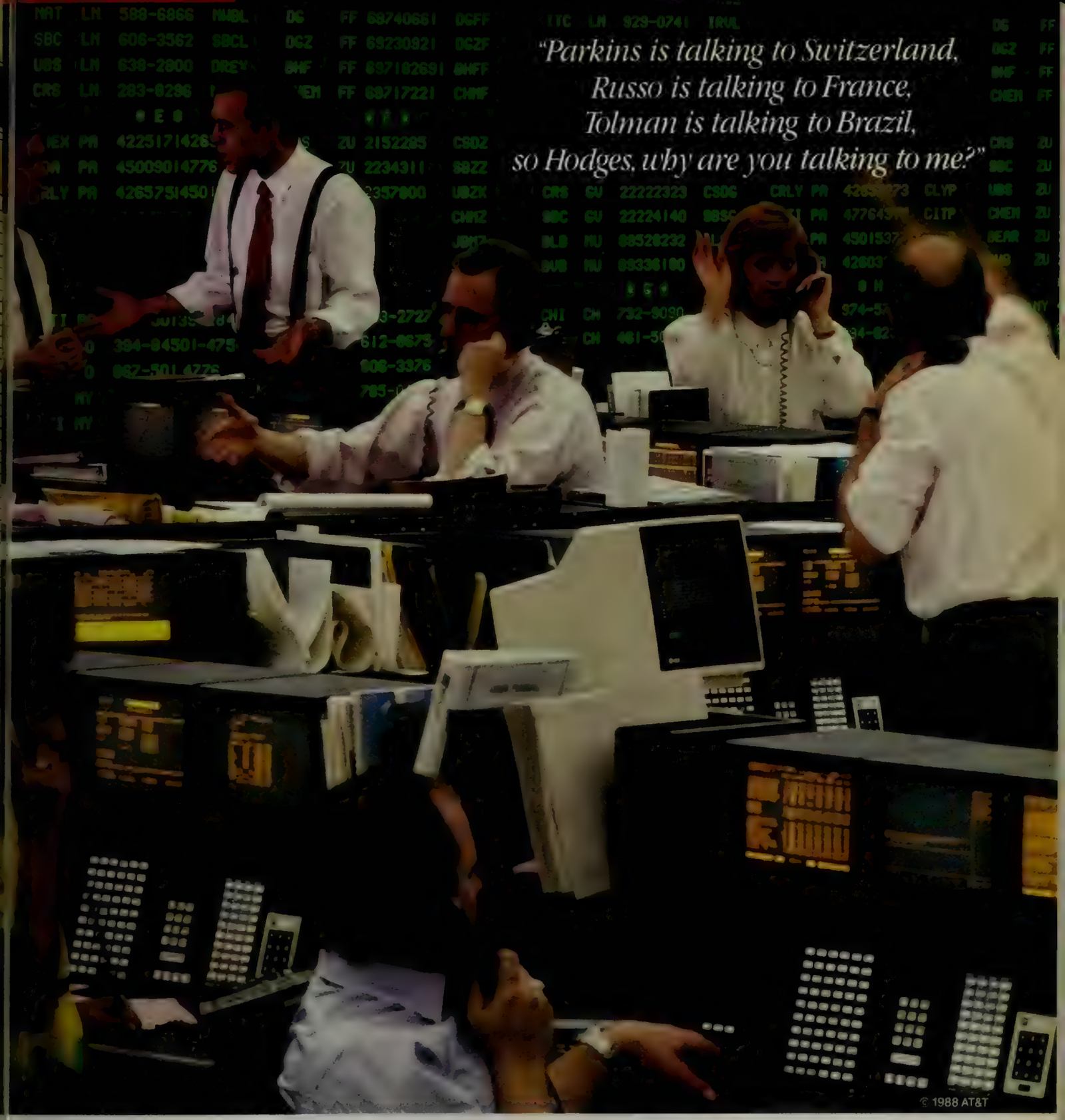
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.









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When Sun Oil announced last month it was splitting itself in two, the question Wall Street was asking was, Who's next?

How about Texaco?

By Toni Mack

IN SPITE OF repeated "restructurings" throughout the last decade, the basic structure of the vertically connected major oil company has remained the same since John D. Rockefeller's day: organized to extract a barrel of crude, run it through a refinery and sell the product to consumers, all in one smooth, integrated process.

But real change is finally in the air. Lately, a few companies have begun—to use a clumsy term—de-integrating. They are dismembering themselves—chopping off their exploration, or "upstream," outfits from the "downstream" refining and marketing operations that the upstream counterparts once supplied.

Last year Diamond Shamrock Corp. split itself into two parts—Maxus Energy, now one of the U.S.' largest independent explorers, and the downstream Diamond Shamrock R&M. Crown Central Petroleum, a Baltimore-based refiner and marketer, sold all its oil and gas reserves for $166 million last December. In May the 186,600-barrel-a-day refiner Total Petroleum (North America) Ltd. put all its U.S. exploration and production properties up for sale. Tenneco internally separated its upstream and downstream in 1978. Now it's selling them separately, through different investment bankers.

All but Tenneco were relatively small companies. Sun Co. is not small, and last month it began to take itself apart. The U.S.' tenth-largest oil company announced plans to spin off its $4.8 billion (assets) domestic exploration business in October as Sun Exploration & Production, to be run by current Sun president Robert Hauptfuhrer.

What is left will be the biggest piece, $9 billion in assets. Sun will henceforth buy crude on the open market—or, perhaps, under contract with a country like Nigeria—to supply its northeastern refineries and service stations. It will also explore foreign areas, mainly Canada and the North Sea, where the odds of finding big deposits are higher than here.

Why undo what it took decades to put together? Simple: The old reasons for integration no longer exist. Early in this century, oilmen wanted refining and marketing to assure an outlet for their crude, which was then in wild abundance. The situation has reversed. Oil is now easy to sell but hard to find.

"Ever since 1970," says Robert McClements, Sun's chairman and chief executive, "U.S. crude reserves have been declining, while the demand for petroleum products continues to increase." In fact, after Sun's planned purchase of a 130,000-barrel-a-day refinery, its U.S. production amounts to only 22% of its refining capacity.

Finding oil to feed the refineries and gas stations, meanwhile, is becoming harder and more costly. From 1982 through 1987, Sun E&P replaced only 59% of the domestic hydrocarbons it sold. Each barrel cost an average $8.07, versus a major company average of $6.89, according to John S. Herold, Inc.

Once, the prevailing wisdom was that oil companies needed the profits from marketing and refining to tide them over when crude prices were low. No more, though, can a company count on one end of its business balancing the other. "You have to go back no further than last year, when neither refining and marketing nor exploration and production was a healthy business domestically," says Sun's McClements. Even when they do balance, notes Prescott, Ball & Turben analyst Bruce Lazier, "investors have shown

Ken Probst Outline

Sun Co.'s Hauptfuhrer and McClements
Integration no longer makes the sense it once did.

they're not willing to pay a premium for stability." So full integration no longer makes the sense it once did. Sun has faced that fact.

The security markets seem to prefer de-integrated companies. Diamond Shamrock's common traded around 12 during much of 1986; since de-integration in May 1987, its severed halves have sold for as much as 19⅝. Last month news of Sun's restructuring goosed the stock 13%, to 60½, before oil price jitters pushed it back to a recent 58⅜.

At the moment, few integrated oil stocks, such as Exxon and Occidental, come close to the estimated breakup values of the company. "People will watch to see how the market evaluates this [Sun breakup]," predicts Barry Good of Morgan Stanley. "If the pieces come close to reflecting their full asset value, other companies will be forced to consider it."

A clear candidate for evisceration would be Texaco, which has the worst domestic replacement record of the majors. So far Texaco has been putting small chunks of itself, like its share in its Canadian subsidiary, on the block. A different sort of dismemberment might produce a bigger bank for shareholders. Others include Unocal (its new management is presumed amenable to restructuring), and Kerr-McGee and Amerada Hess, whose domestic production supplies a fraction of their refining needs. ■

Candidates for divorce?

The market values a company's exploration and refining differently, so integrated oil stocks like Sun chronically undershoot their asset value. Breaking them up could boost some of these prices.

Company	Recent price	Appraised net worth per share	Price/ appraised net worth	Yield
Amerada Hess	28⅜	$38.90	72.9%	2.1%
Amoco	77¾	97.90	79.4	4.5
Atlantic Richfield	83½	125.25	66.7	4.8
Chevron	48	79.25	60.6	5.4
Kerr-McGee	34⅞	42.25	82.5	3.2
Mobil	45⅜	88.85	51.1	5.3
Pennzoil	72⅞	100.70	72.4	3.0
Phillips	17⅝	33.30	52.9	3.4
Sun	58⅜	73.60	79.3	5.1
Texaco	46⅞	65.05	72.1	6.4
Unocal	36¼	64.45	56.2	2.8

Source: John S. Herold, Inc.

With their casino bonds, Donald Trump and Merv Griffin are breaking new ground in creative finance.

Collateral? Interest coverage? Who needs them?

By Allan Sloan

THE MERV GRIFFIN-Donald Trump battle for control of Resorts International this past spring was a hell of a show—not many takeover battles get as much ink in the gossip pages as they do in the business pages. The story has faded from both the gossip columns and the business media. But the real fun is just beginning.

The financing is intriguing. It will take all of Drexel Burnham's and Merrill Lynch's vaunted money-raising skills to pay for the deal, scheduled to close in late August or early September. A billion bucks in junk bonds is involved: $325 million for Griffin (through Drexel Burnham Lambert), $675 million for Trump (through Merrill Lynch).

Watching the oh-so-discreet backbiting between Drexel and Merrill as they try to raise the money is almost as much fun as watching Donald and Merv go to war via their press agents.

Drexel's allies giggle at the way Merrill's financing is stacked in Trump's favor—if everything works, Trump will own a $780 million property without having a penny of his own tied up.

Merrill's allies, meanwhile, snicker at Griffin's filings at the SEC—which show a financial situation that looks strained, to put it mildly—and spread the word that Merv wore TV makeup when he met with Donald. The implication is that Merv is a Hollywood airhead who was taken to the cleaners by Trump.

It's all good fun, but it involves serious money as well as a fantastic demonstration of the power of junk bonds to make money for those who can mobilize credit through them.

In prehistoric times—say, ten years ago—when original-issue high-yield paper was little more than a gleam in Michael Milken's eye, neither Griffin nor Trump could have dreamed of raising the kind of money needed to do so leveraged a deal. Banks and insurance companies had boring, old-fashioned standards, such as requiring borrowers to have enough cash flow to cover interest payments and making sure people taking out construction loans had substantial personal investments at stake.

But today's high-yield paper buyers? They're a different story. They'll lend money on a good story, on faith in the principals involved. Collateral is secondary, maybe even tertiary.

Collateral? Interest coverage? Drexel is raising more money for Griffin than he's spending to buy all of Resorts' stock. Griffin must either increase Resorts' cash flow—or reduce debt by throwing in more money or selling assets at fancy prices—just to meet his interest payments. He can't meet them out of Resorts' current

cash flow.

Trump? Not to be outdone by Griffin, he has cut a deal that would allow him to finish the $780 million (projected cost) Taj Mahal casino-hotel in Atlantic City, N.J. while having at most $31 million of his cash tied up in it. That's a cash equity of 4% of the project's cost, giving him leverage of 24 to 1. What's more, SEC filings show, Trump plans to pay himself a $10 million fee after the Taj is completed and to take out as much as $25 million more. That would leave him with a cash investment of *negative* $4 million—and he would still own the Taj lock, stock and casino.

Ah, the wonders of junk bond financing. This deal sets records.

Some background: Trump bought control of Resorts last year by borrowing just short of $100 million to buy most of Resorts' B shares, which have 100 votes each. Thus, he owned 11% of Resorts' equity, but controlled 88% of the votes. After trying to buy out Resorts' publicly held A stock at an absurdly low price, Trump split Resorts with Griffin, who was brought in, almost by accident, by disgruntled shareholders (FORBES, *May 2*).

The two celebrities finally made peace, in a deal so complicated that few people bothered to figure it out. We did. Here—bear with us, it's a maze—is the story:

Trump is supposed to sell his voting B stock to Griffin for his cost, $96 million. All that money goes to repay Trump's loans. But Griffin also pays Trump another $63.7 million to buy out the juicy management contract Trump extracted from Resorts (FORBES, *Dec. 14, 1987*). Trump then turns around and spends $261 million to buy the partially completed Taj from Resorts, which had spent $500 million but botched the job.

How does Trump pay for this unfinished edifice? With other people's money, of course. He forms a partnership that will raise $675 million through Merrill Lynch. The partnership buys the Taj from Trump at his cost. Any equity capital in the partnership? Yes, $75 million thrown in by Trump. But whence will come that equity? Mostly from the $63.7 million Griffin will pay to buy out Trump's management contract. Tack on an estimated $20 million for interest and expenses, and Trump's net cash outlay is a little over $30 million. Nice: $30 million controls a $780 million enterprise.

Now for the real fun. Trump seems to be borrowing more than he actually needs to finish the Taj should he meet his December 1989 deadline. Remember, he's raising $750 million and paying only $261 million for the property. That leaves $489 million. Subtract the $26 million Merrill will get for its efforts, and add in $30 million Trump will earn on the money during construction, and there's $493 million to finish the Taj. Chances are good that Trump can finish it for much less than that. If so, he makes an immediate profit. The deal provides that if there's money left in the kitty when the Taj is completed, Trump gets a $10 million fee for building his own casino-hotel and can take the first $25 million of leftover cash as well.

Peter Byron

The partly completed Taj Mahal
A big gambler's biggest gamble.

Trump also gets a management fee of 1.75% of the Taj's gross receipts once it opens. We think that should run about $7 million a year, if the Taj does well.

Trump's prospectus stresses that he is personally guaranteeing that the Taj will be finished on time and on budget. If it isn't, bondholders can force him to cough up whatever it takes to do the job. In short, he has pledged his personal fortune that he can finish the job, with the money already raised.

But Trump's personal guarantee ends when the Taj opens for business. If there's a problem five years after the Taj opens, Trump has no personal liability. The bondholders' only recourse is foreclosing on the Taj. But if the Taj isn't generating enough cash to service $675 million debt, who will pay $675 million for it?

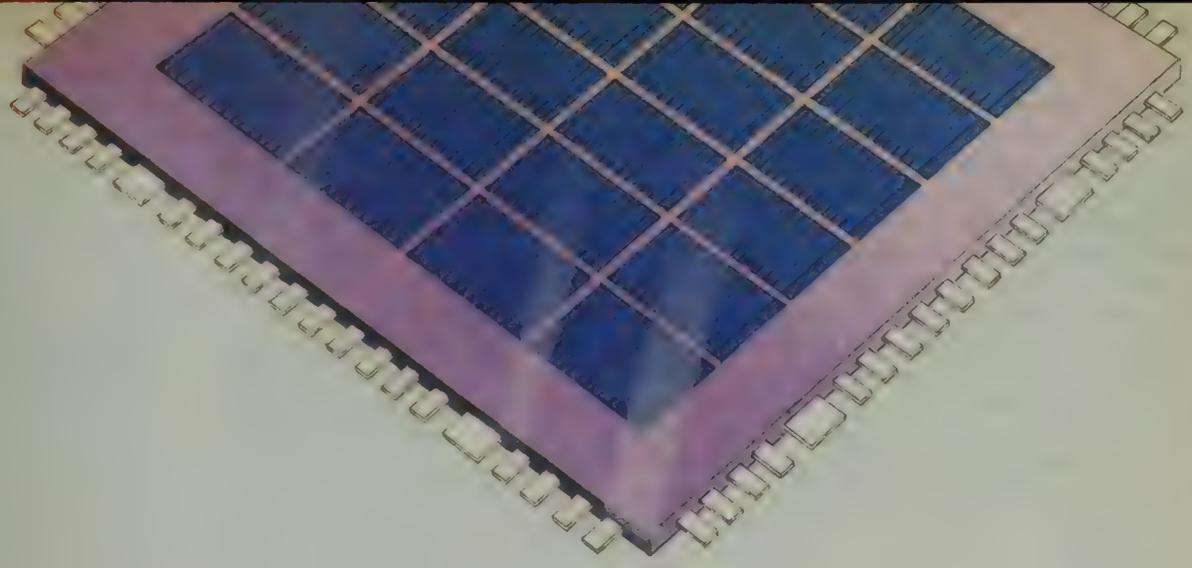
Merrill is assuming that Taj bonds will carry a 13% interest rate—about the same rate at which Trump's Castle and Trump Plaza bonds were trading recently. Castle and Plaza buyers get a seasoned property with a history of meeting debt payments. Taj bond buyers have less tangible but still considerable collateral: Trump's reputation for making deals work.

Now for Griffin, who is doing what amounts to a leveraged buyout of Resorts: If we've done the numbers right, Griffin will have a little more than $50 million of his own cash invested. Against this he will have Resorts' remaining assets, plus a $200 million tax loss generated by selling Trump the Taj at less than book value.

The Griffin prospectus shows that, unless he can generate more cash from operations than Resorts' old management did, he won't be able to pay his interest tab. Thus Drexel, which is projecting a 12.3% interest rate for Griffin, is requiring him to put $25 million of his bond proceeds into a special fund, usable only for meeting interest payments. The prospectus says that Griffin intends to improve the properties—how, it does not say.

The numbers would immediately look much better if Griffin sold Resorts' casino in the Bahamas, or some of its very valuable real estate there. Griffin's people say no such sale is intended—especially since Griffin gave Trump a five-year right of first refusal on the Bahamas properties.

So, the whole thing is a wonderful demonstration of what junk financing can do for those folks lucky enough to have access to it. Trump may well pull it off, once he opens the world's largest gambling casino. Merv Griffin may also make a lot of money out of the Resorts deal, which he got into almost by accident. But it's a giant gamble all around, with public bondholders staking both sides. Heads, the gamblers get richer—and the bondholders get 13%. Tails, the bondholders take the big losses. ■



The shortage of memory chips put Micron Technology in the money. Will it do as well now that the crisis is ebbing? Company insiders are voting with their feet.

Take the money and run

By Kathleen K. Wiegner

After seven lean years during which it managed to make real money only in 1984, Micron Technology is finally in fat city. Its principal product is a memory chip, the dynamic random access memory, or DRAM. Micron and Texas Instruments are the only major U.S. chip companies that make this workhorse, used in every computer from the smallest personal computer to the largest mainframe.

This year, thanks to a critical shortage that has pushed prices to record levels (Forbes, *June 13*), the Boise, Idaho-based chipmaker is rolling in money. After losing over $50 million during the last two years, Micron is expected to earn an almost incredible $98 million on sales of between $275 million and $300 million in its fiscal year ending Aug. 31.

After that? Well, that depends on how long you think DRAM prices will stay high. On this point, industry opinion is sharply divided. Prices for the 256K DRAM (which stores a quarter of a million bits of information, or about six pages of this magazine), peaked in May and have been trending down since. Likewise for some of the new 1-million-bit DRAMs. Since May, these DRAMs have dropped from $28 to $20, and will probably go to $12 or below by early next year as supply begins to catch up with demand.

There's still money to be made at that price. Micron's manufacturing cost for 256K DRAMs (which currently sell for around $4) is between $1.25 and $1.50. But some industry experts argue that prices will sink more, as Japanese companies—which control 85% of the world DRAM market—increase capacity and begin fighting among themselves for market share.

What happens over the next year will be critical to Micron. A true American success story, it was backed in the early 1980s by Idaho farmers and businessmen (chief among them J.R. Simplot, the potato king). The Parkinson twins, Ward and Joseph, who founded the company, hung on in the DRAM business even while giants like Intel and National were being driven out by the Japanese.

Micron's impassioned criticism of alleged Japanese dumping of DRAMs helped lead to the semiconductor pact. Joe Parkinson claims that with-

Min Jae Hong

out the chip pact Micron would have gone out of business following its crippling losses in 1986 and 1987. Unfortunately for him, that trade pact is under attack from computer makers who, hurt by the shortages and high prices, blame it for their woes.

In any case, Micron is spending $180 million to expand capacity. The company is counting in part on "take-or-pay" contracts it has signed with some 20 customers, which guarantee deliveries of DRAMs at a certain price for two years. It may also be gambling that the Japanese won't shoot themselves in the foot, as they did during the price-cutting wars, when they lost an estimated $4 billion.

Still, it's an iffy business. If DRAM prices fall too far below Micron's contract price, those contracts are probably unenforceable. Worrisome, too, is the recent slowdown in the sales of midsize computers.

So it could go either way for Micron. Its top officers seem to be playing it safe. Since the first of the year, Micron's officers and directors, who own some 25% of the stock outright, have been unloading hefty portions of their holdings. Two early Idaho investors, Allen Noble, a potato farmer, and Thomas Nicholson, a wealthy sheep rancher, cashed in close to $5 million worth of Micron shares between them. Micron's cofounders, Ward and Joseph Parkinson, accounted for close to $5 million more. In July Micron's president and its vice president of finance both resigned on the same day, citing "personal reasons."

Maybe the insiders were just nailing down some profits: Micron's stock, which traded as low as 4 last year, hit 26 earlier this year before dropping to a recent 19. But their exodus from the stock at a crucial juncture sure doesn't look good. ■

Nicaragua's Sandinista rulers are not much loved at home, but they are doing great with the Japanese, the Canadians and several Western European countries.

Daniel Ortega's new friends

By Pranay Gupte

He would seem to have his problems: His economy is a mess, his Soviet and Cuban friends can't afford to give him much nonmilitary help, some of his Central American neighbors are critical of his persistent human rights violations, and the contras are still camped on his doorstep. Yet the chief of the Sandinista junta in Nicaragua, dapper Daniel Ortega Saavedra, 43, was cool and confident when he spoke at some length with Forbes late last month in Managua.

Why was Ortega so confident? In good part because he looks forward to a Democratic victory this November and he is a great admirer of Massachusetts Governor Michael Dukakis, whose acceptance speech at the Democratic national convention Ortega calls "inspiring."

Don't the recent cutbacks in Eastern bloc nonmilitary aid worry Ortega? Yes, but he has some new friends who are a lot richer than the Soviets, and who can defy the U.S. embargo. Who other than the U.S.' Canadian and Western European allies? The Soviet bloc supplied 47% of Nicaragua's imports of $830 million in 1987, but this year the Eastern bloc's proportion will drop to 40%. (Soviet military aid, of course, is a bit more than that, but you can't feed people with guns, and tanks aren't much use in plowing fields or moving goods.) The slack in economic trade and aid will be more than taken up by noncommunist countries.

Ortega: "In spite of the great pressure exerted by the U.S., there have been governments willing to face up to the American policy of blockade and embargo. When the U.S. dictated the embargo and blockade, Canada immediately showed a willingness to supplement with whatever it could in its trade relations with Nicaragua. It has also been willing to take in Nicaraguan imports of coffee, sugar and fruits—which were normally exported by us to the U.S.

"We have also been able to place our bananas in Belgian markets and elsewhere in Western Europe. In spite of U.S. pressure and the resistance by right-wing sectors in various countries, we have managed to maintain a diversified market and generate diverse sources of international aid."

Ortega and his aides enthusiastically describe some of this assistance. Spain, Italy and West Germany are investing large sums in tourism *(see box, p. 40)*. Spain and Mexico are helping to develop the forestry industry—Nicaragua has $2 billion in furniture-quality wood available, particularly on the Atlantic Coast.

The Japanese, always alert to new commercial possibilities, have become a noticeable presence. Toyota jeeps and trucks are everywhere in Nicaragua. Mitsui is making new investments in the fishing industry. Japanese tractors are steadily displacing the clunky Soviet tractors that were imported in volume after the Sandinista dictators shot their way to power against dictator-strongman Anastasio Somoza in July 1979. Japanese tractors are also replacing the sturdy but aging John Deere tractors that Nicaraguan farmers universally desire but can no longer get.

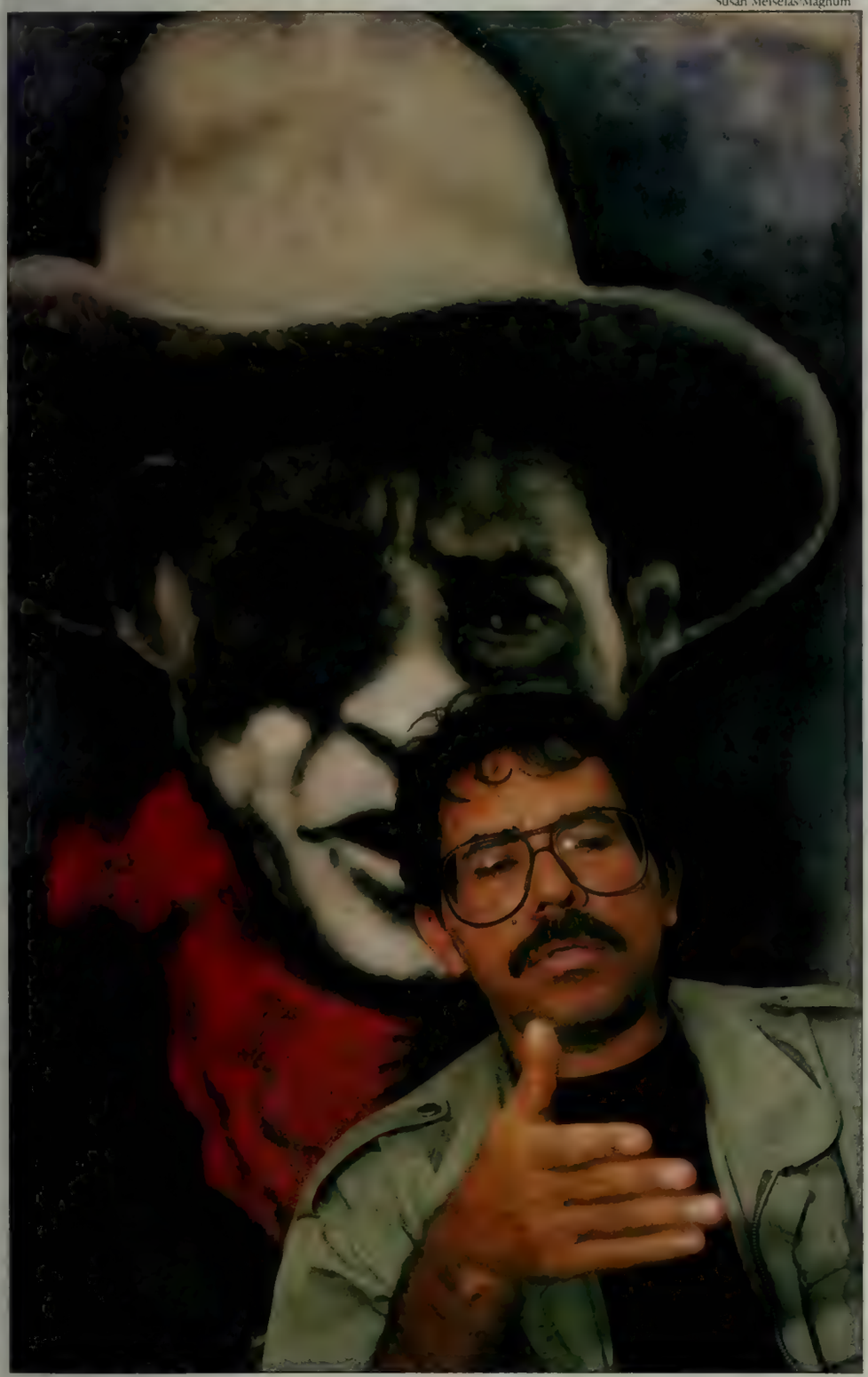
The aid does not end with trade. Nicaragua is receiving unprecedented

development assistance—grants, concessional aid and such—from Western Europe. According to Planning Minister Alejandro Martinez, last year $80 million in grants came from Sweden, Spain, Finland, Norway, Canada, Argentina, Yugoslavia and India. Yes, India. Italy and Nicaragua recently signed a $150 million agreement for long-term credits and development projects.

Sweden is high on the list of Ortega's friends. Martinez says it gave $60 million in development aid last year. Italy was close with $50 million. The Soviet Union tied Italy in economic (as opposed to military) aid, with $50 million. From Spain came $22 million; from Canada, $10 million.

Why are the Western Europeans undercutting the U.S. effort to restore democracy to Nicaragua? Part of the explanation is commercial, the chance to exploit a new market when the war ends. Humanitarian concerns for the war-torn country also play a part—as do cynical politics. Says a senior Western diplomat stationed in Managua: "Part of the reason is political sympathy—especially from such left-of-center governments as Sweden. For some of these donors, it's an opportunity to steal the thunder from the U.S. in its own backyard."

Susan Meiselas/Magnum



Sandinista leader Daniel Ortega
"We can trust Dukakis' administrative ability."

A pleasant thought: We defend Western Europe and Western Europe nourishes a Marxist-Leninist government in our backyard.

Throughout much of the world, socialist policies have been discredited. Market forces and liberalism are on the rise. But many European governments must still pay lip service to their minority, but vocal, left-wingers. How to satisfy the left without ruining one's own economy? A few millions for the Sandinistas offer a cheap solution.

But India? Ortega is on excellent terms with Prime Minister Rajiv Gandhi, who supports the Sandinistas at the U.N. and in the Nonaligned Movement and has extended a commitment for credit and raw material. In the fall of 1986 Gandhi pledged $10 million in easy-terms credit to Nicaragua under which the Ortega government would buy Indian textiles, machinery and consumer goods.

Of course, Ortega wants more foreign investment. When seeking it—as in the interview with FORBES—he sounds more like Adam Smith than Karl Marx. "We want to assure foreign investors Nicaragua is safe for them," he vows. "We aren't talking about more state production in our economy. Rather, we're talking about stimulating the private sector, letting it develop, letting it get strengthened."

Unfortunately, Ortega's deeds don't square with his words. The San Antonio sugar plantation is Nicaragua's biggest commercial unit; until recently owned by the liberal Carlos Pellas family, it produced 40% of the 143,000 tons of sugar Nicaragua produces annually. In July Ortega's government nationalized the San Antonio operation.

Pressed on the point, Ortega shrugs. "The plant had deteriorated to such a degree that we were obliged to take it into our hands. The owners had decapitalized the plant, had turned their profits into dollars and invested the money in the U.S." But U.S. State Department officials describe San Antonio as "the largest and most efficient sugar refinery in Nicaragua."

What about the Sandinistas' clampdown on the political opposition and on the daily newspaper *La Prensa*? Ortega said that dissent would be tolerated, as long as it wasn't "disruptive." Disruptive of what? The one-party state, of course.

Trading up from the "Sandalistas"

Despite the civil war, Nicaragua gets about 100,000 foreign visitors each year. At least 40% of these travel from the U.S. and include the fellow-traveling and frequently gullible "revolutionary tourists"—a.k.a "sandalistas."

Trouble with the sandalistas is they don't spend a lot of money. So Herty Lewites, 48, hopes to bring in a classier set of tourists, and is raising a lot of European money to do so. Lewites was born into a wealthy family that owned a candy-manufacturing business in prerevolutionary Nicaragua. After studying business administration at a private school in Mexico City, he joined Daniel Ortega Saavedra's underground Frente Sandinista de Liberación Nacional (FSLN), and soon found himself in Costa Rica heading guerrilla operations against dictator Anastasio Somoza Debayle. After the Sandinistas seized power on July 19, 1979, Lewites, who was their chief of protocol, was appointed minister of tourism.

Susan Meiselas/Magnum

Tourism Minister Herty Lewites
With European capital, able to handle tourism.

With a lot of European investment, Lewites is building four resort hotels, including a $40 million resort complex in Montelimar, where Somoza had a huge estate overlooking the Pacific. The Montelimar complex is expected to open for business next February. Investors in the project include Spaniards (the Melia group) and Italians (who have put in $10 million). Lewites also claims that a pair of California businessmen are involved in the project, but he won't identify them, saying they do not want their names disclosed. He says Italy's San Marino Group will open at least two casinos by February 1989. There is also the $5 million Olof Palme Center convention hall under construction in downtown Managua. Lewites has already booked 1,700 ecologists who will hold an international conference here in early 1989.

Other enterprises Lewites controls include the Managua Inter-Continental Hotel (in which the government has a 70% stake, with Guatemalan entrepreneurs holding the rest); and a chain of seven "dollar stores," where fortunate Nicaraguans can shop for scarce goods with the dollars they receive, usually from friends and relatives in the U.S.

During the interview Lewites let slip a confession that—except for tourism, which is a relatively simple business to manage—the Marxist-Leninist government knows it cannot run an effective economy. He put it this way: "I knew that the development of tourism would be far more within our grasp than instituting industrialization."—P.G.

Ortega denies persistent reports that the Sandinistas host large numbers of Soviet and Cuban military personnel. "All we have is fewer than 100 foreign military instructors," claims Ortega. "And they are going home." (The State Department estimates that there are 3,000 military advisers from the Eastern bloc.)

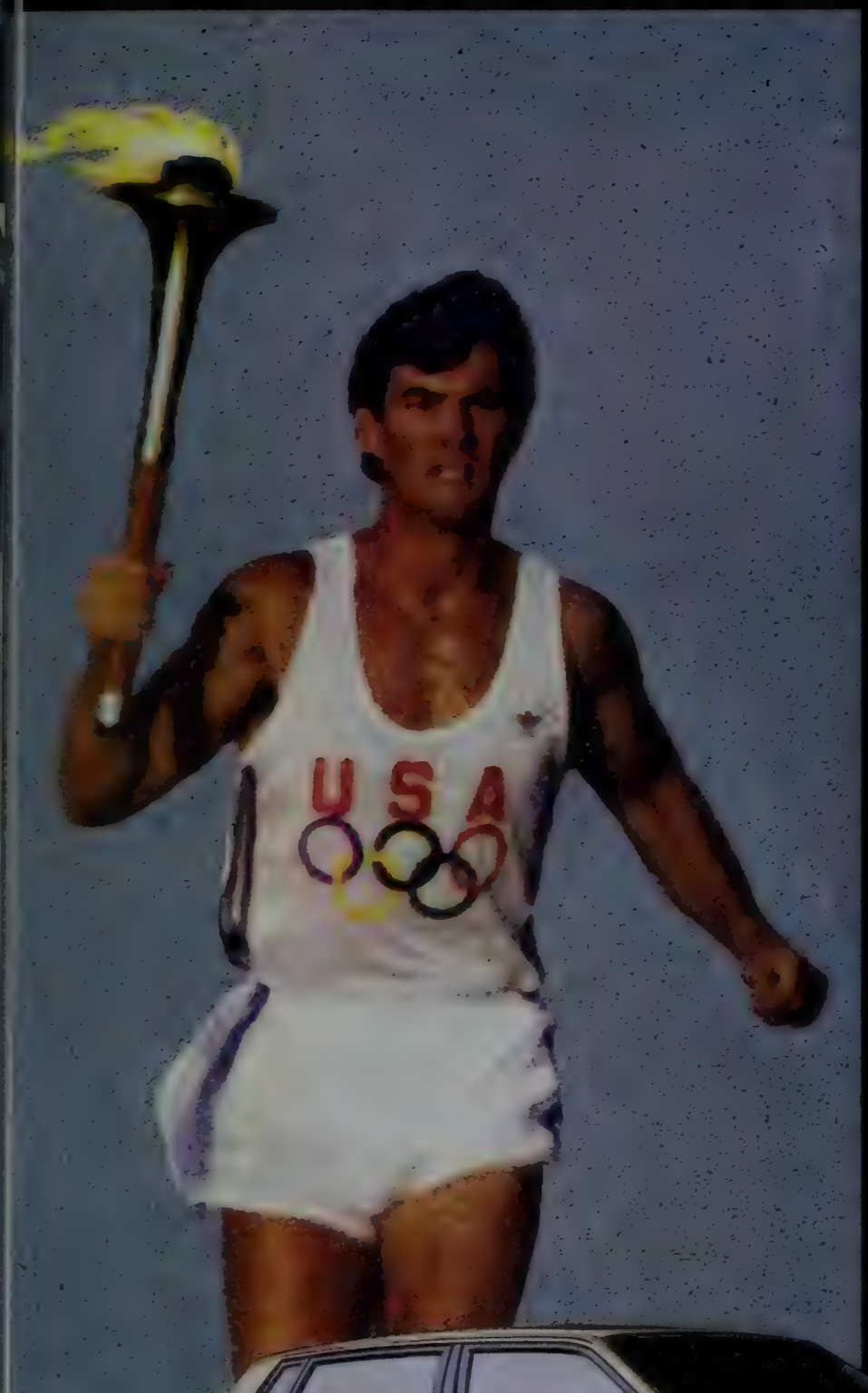
Ortega says he was displeased by Michael Dukakis' criticism of Ortega's great friend, Panama's dictator/drug merchant Manuel Noriega. But otherwise he admires Dukakis greatly. Ortega: "We can trust Dukakis' administrative ability, and the administrative ability of a future Democratic Administration to change U.S. policy. I think that with Dukakis we could have better conditions to work for a new dialog."

"Carter," continues Ortega, "did not enter into a dirty war against Nicaragua. He always wanted to resolve problems through diplomatic means. It was when Ronald Reagan came to office that the dirty war began. . . . However, I think that Mr. Dukakis will doubtless encounter some serious obstacles—he will be subjected to McCarthyist pressures from the die-hard conservatives."

Maybe so, but even a sympathetic Dukakis can hardly ignore Ortega's dragging his feet on democratizing his dictatorship. To meet the terms of the so-called Arias peace plan, Ortega must hold free elections and must tolerate a free press. Ortega shows no sign of doing either. In fact, he cannot genuinely afford to democratize. In a recent poll conducted by Centro de Investigaciones Itztani, associated with the Jesuit Central American University, the Sandinistas won a 28% approval rate among Nicaraguans; a large majority of those polled said they had no political preference.

With little support for the Sandinistas at home, Ortega is especially thankful for the aid and trade from his new friends abroad. "This has been an extraordinary effort on the part of these countries," he says sincerely, "and we appreciate their willingness and receptiveness." The majority of the Nicaraguan people, groaning under a repressive government and suffering from all kinds of shortages, may have a somewhat different view. ■

The challenge of the Century.



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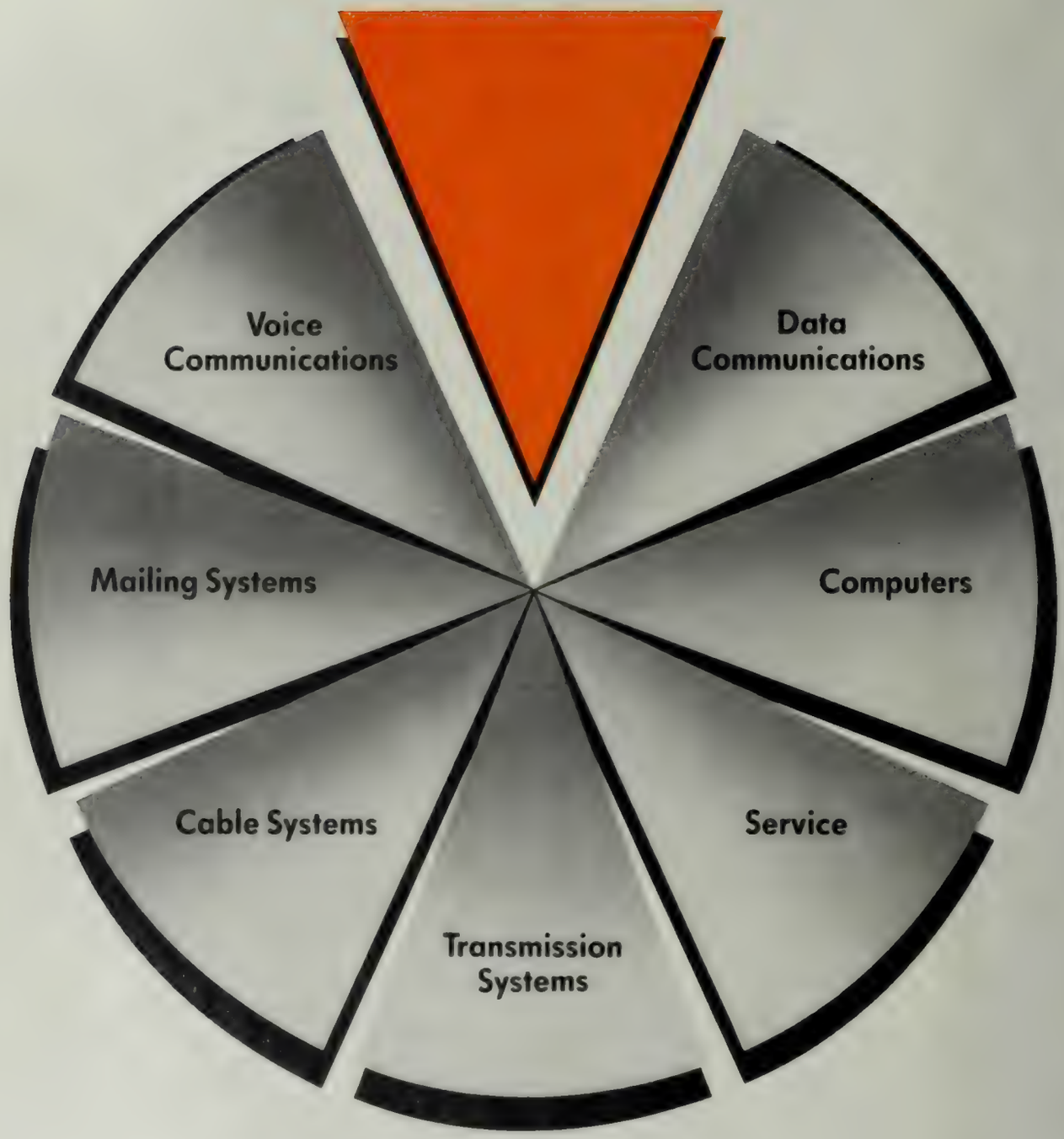

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The voice of inflation once more is heard in the land. How seriously should we take it? Not very, says John Rutledge.

Bears will be bears

By Peter Brimelow

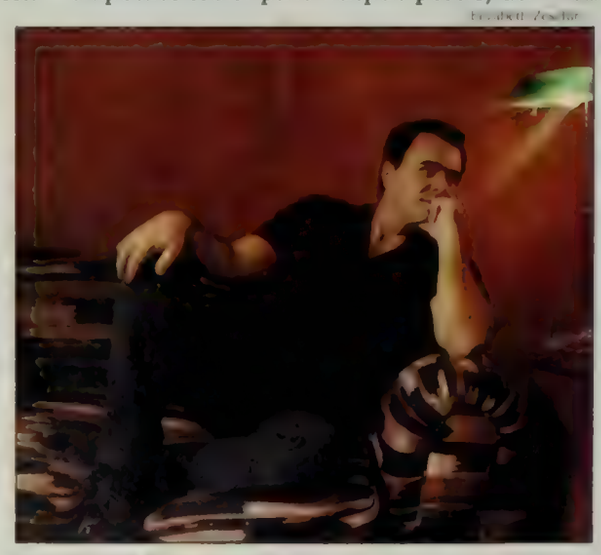
TALK OF INFLATION and of rising interest rates is spooking the markets these days. John Rutledge, chairman of California's Claremont Economics Institute, just smiles. "Boys will be boys. And bears will be bears," he says. This year, Rutledge points out, there was bearish growling when the trade deficit was high, because it supposedly implied an imminent dollar decline. Then the trade deficit diminished, but did the bears go back to their dens? No. They grunted about that, too, saying that the rapid growth of U.S. exports might mean a coming capacity crunch. Almost looks as if the economy can't do anything right.

But Rutledge believes that the economy is in fact doing things right regardless of bears and politicians, and inflation is not about to come roaring back. Long-term structural trends, he thinks, mean that the 1990s will be an era of great prosperity. In the short term he rejects the consensus that the economy is so close to capacity that it could soon hit a wall and burst into inflationary flames.

Rutledge points out that important areas of the economy, such as autos, are far from maximum utilization and cannot raise prices. But industries that are close to capacity, such as paper and textiles, can raise prices. Rutledge adds that his own work as a consulting economist to corporations has convinced him that the streamlining of U.S. business in the 1980s has been so effective that it has sharply improved productivity, decisively altering "the rules of thumb we use to associate labor and capital inputs with outputs of goods and services."

A good part of the current bearish case rests on government capacity estimates. Questioning their basis, Rutledge says these estimates are constructed by a process he describes as "an occult art." Fed statisticians extrapolate from past output peaks, adjust measured capacity for reported closings, and guess. But, for example, the U.S. capital stock has been radically restructured in recent years—some $233 billion of equipment and structures was retired from 1981 to 1985 alone, fully a third of the total manufacturing capital stock in 1981. Official estimates do not capture the superior productivity of the new capital stock. Rutledge's own estimate is that recent capital spending will increase capacity by up to 8% in 1988. So where's the danger of running out?

Significantly, some $460 billion, or 24%, of the current capital stock less structures has been imported since 1980. Rutledge estimates that these imported capital goods are now producing between 4% and 8% of the gross national product.



Economist John Rutledge
Inflation won't come roaring back.

This foreign investment phenomenon puts the much maligned trade deficit in a new light. "Contrary to popular lore, we are not just bringing in VCRs and BMWs," says Rutledge. In 1980, 18.3% of U.S. nonpetroleum imports was capital goods; by the first quarter of 1988, capital goods amounted to some 31.9%—with another 20.2% made up of industrial supplies.

"It's a new Marshall Plan, reindustrializing America," Rutledge argues. He points out that some of these capital goods imports are directly financed by foreigners—Japanese-owned auto plants in the U.S. can now produce 2 million cars a year. Eventually, he says, this new productive capacity will generate trade surpluses and service foreign debt for the U.S., just as Japan started producing surpluses in 1965 after years of trade deficits, Korea, in 1986—and the U.S., after its first industrialization, also financed by foreigners, at the end of the 19th century.

Rutledge expects continued steady growth in the U.S. through 1989, although he says the financial markets will probably not stabilize until after the election.

He thinks that in the 1990s the U.S. will benefit from the rebuilding of its capital stock much as Japan is doing now. He also expects that the middle-aging of the baby-boom generation will generate massive personal savings, exerting persistent downward pressure on interest rates, a process that recent savings data suggest may already be under way (FORBES, *Apr. 20, 1987*). Again like Japan—where there was no baby boom and the demographic profile is like that projected for the U.S. in the year 2000.

At Claremont, Rutledge presides over institutional investment services and the production of a retail investment letter for individuals, the *Main Street Journal*. But his book on the restructuring of America, to be coauthored with his partner, Deborah Allen, and published by Harper & Row, is way behind schedule. He's using the million free miles piled up by his ceaseless traveling to take his family to Hawaii for the remainder of the summer in the hope that he can finish it there. Not all U.S. productivity problems have yet been solved. ■

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In Touch with Tomorrow

TOSHIBA

Is it dangerous for kids to daydream too much? Stephen Cannell daydreamed a lot and turned his fantasies into a fortune.

What stuff are dreams made of?

By Deirdre Fanning

STEPHEN CANNELL is a Hollywood mogul, but not your ordinary Hollywood mogul. How many moguls write their own shows? Cannell does, typing away on a battered IBM Selectric, in between making the final decisions in the running of a $160-million-a-year enterprise employing 2,000 people. At 47, Stephen Cannell is probably a centimillionaire—thanks to his skill at the typewriter and a highly developed business sense.

Cannell has an extraordinary ability to move back and forth from the imaginative to the practical. He says, "My executives are constantly interrupting my train of thought with things like: 'Stephen, I know you're writing but . . . (a) the company's been sued, (b) there's been an accident on the set of *The A-Team*,' etc., etc. . . ."

Cannell handles the crisis and goes back to his Selectric. What the writeaholic Cannell writes, he thereafter produces, usually to top-of-the-heap Nielsen ratings. He has become the largest independent producer of prime-time TV programming, with such highly successful Cannell-written and -produced shows as *The A Team*, *Riptide*, *Hunter* and *Wiseguy*.

Just as Mark Goodson and Bill Todman developed the TV game show format that has become an icon of America's pop culture, and Norman Lear made bigotry charming, Cannell has perfected the hour-long action series drama. Though his shows vary in levels of sophistication, they all contain the basic elements: blood, guts, car chases and just enough humor to lighten the mayhem.

There seem to be almost two Cannells, the writer and the business executive. Cannell the writer complains about writer's block, and has a habit of phoning his top executives to read them snippets of dialog from a script in progress. By contrast, Cannell the studio boss is concerned with the bottom line. In casual conversation he reels off numbers like an accountant.

These aren't skills you learn in business school. What made Cannell the strange mixture that he is? What gave him his popular touch at the typewriter?

Stephen Cannell grew up in Pasadena, the son of a wealthy interior design firm owner, Joseph Cannell. The privilege of his upbringing was marred, however; young Stephen had dyslexia, a learning disability that made reading difficult and caused him to flunk three different grades before high school. While classmates competed for grades and the approval of their teachers, young Stephen would stare out the window. "Because of my dyslexia, I thought I was a failure in school," Cannell says. "As a kid I lived in fantasy and daydreamed a lot." At the same time he was guilt-ridden that he wasn't succeeding, fearful of disappointing his father. Recalls his father: "We used to call him 'The Storyteller,' because he would dream up all types of stories to entertain the other kids with."

Cannell didn't know it at the time, but his father was dyslexic, too. The elder Cannell kept his own dyslexia hidden from his son, lecturing him with tales of academic successes in an attempt to keep him motivated. It was only after college that Cannell learned from his grandmother that his father's academic record had been almost as spotty as his own. That was a key: Instead of encouraging the boy to feel sorry for himself, the father challenged him to overcome his handicap. Today Cannell refers to his father often in casual conversation, calling him his "best friend and mentor," and a large photograph of the elder Cannell hangs on his only son's office wall.

So it went. Turn those daydreams into TV scripts about rumpled, screwball cops who walk around with cockatoos on their shoulder. Turn that guilt into a determination to succeed. There—somewhat simplified—you have the secret of Stephen Cannell.

At the University of Oregon in 1961, a sympathetic writing professor, Ralph Salisbury, showed Cannell how to turn his fantasies into manuscripts. Salisbury encouraged Cannell to write his stories and send them off to literary publications. Says Cannell, "I knew then that I'd write for the rest of my life."

For four years after college, Cannell's writing was done after working hours. He went to work for his father's firm but disliked the business and would regularly disappear at 5 p.m. to write television scripts at home until after 10. Why TV? If he was going to leave his father's business, with its financial security, he needed to improve the odds of success in the tough writing business—and TV scripts were where the money was. It was a good choice, for probably no medium better suits Cannell's vivid fantasies than television.

For his shows he dreams up oddballs and misfits who beat the world. Think of Mr. T, the now-cliché star of *The A-Team*, who sports a menacing Mohawk haircut and drapes his chest with heavy gold necklaces, and you've got the idea. Most of Cannell's shows have heroes who are charmingly self-effacing and outsiders of some sort in their worlds. In the *Rockford Files*, an early Cannell show, actor James Garner played a private detective who, in one typical episode, quite unheroically broke his hand when he tried to punch a crook.

By 1980, before he was 40, Cannell was earning $500,000 a year at Universal Television as a writer-producer, enough to satisfy most people's fantasies. But then the other side of Cannell took over: the drive-for-success side. When his series—such as *Rockford Files* and *Baretta*—went into syndication, it was the studio, not Cannell, that made the big money. On one year's worth of *Rockford Files* reruns, for example, Universal would take in maybe $10 million, while Cannell would get $150,000 in residuals. Such arithmetic seemed lopsided then—just as it does now to the Writers' Guild, which is striking over that issue.

Cannell Studios' chief executive, Stephen J. Cannell

Ann Suma/Onyx

High ratings currently go to half-hour sitcoms, but Cannell believes the tide will turn.

Yet Cannell's response was not to man a picket line but to go off on his own, creating a new production company to produce as well as write his fantasies. His *Tenspeed & Brownshoe* was a dud that ran only 13 episodes on ABC before being canceled, costing Cannell's fledgling company $800,000. But his father taught him that you don't give up easily.

Since then, it has by and large been one hit after another. Biggest moneyspinner of all: Cannell's 98-episode action hit, *The A-Team*, which went for $1 million per episode when it sold to syndication in 1985. Almost half of that $98 million will go directly to Cannell as profit.

The way TV economics works is this: The studio making an action series recovers only about 75% of its costs from first-run network showings and maybe another 15% from foreign rights. If the show is a success and public tastes don't change, it goes into syndication about five years later. That is, it is sold to independent television stations that buy it for second runs. Since the cost is by then largely written off, the syndication fees are mostly gravy. But no syndication, no gravy.

Lately the gravy has become thinner. Cannell's specialty is hour-long shows, but audiences now lean toward 30-minute situation comedies like NBC's *Cosby Show*. The latter provide more scheduling flexibility and, at least for now, higher ratings. Mean-

Hitachi's wide-ranging automotive technologies include car audio, the Satellite Drive Information System featured on Nissan's CUE-X concept car and a microcomputer engine control system.

AUTOMOTIVE

Automobiles should be more than safe, comfortable machines. They should also be able to communicate with the world around them.

Recent advances in car electronics technology have been remarkable. They've not only improved basic functions such as engine control, they're now being seen in man-machine interfaces providing more comfort and operating ease, and even in communications with the surrounding world. Down the road there are things even more exciting.

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debt-laden television stations [illegible] less willing to pay top dollars for syndicated shows.

When the creators of such long-running top-rated hour shows as *Miami Vice, Cagney & Lacey* and *Murder, She Wrote* tried to sell their shows to syndication last year, they found little interest from television stations. All three shows ended up being sold instead to cable, reportedly for only $300,000 to $500,000 an episode—gravy, but thin gravy.

This leaves Cannell in something of a bind. "I don't know anything about writing comedy," he says. He is dabbling in game shows and comedy, with six such shows in development. But for the most part, his studio continues turning out hour-long action shows like *Wiseguy*.

This represents a gamble, because if sitcoms continue to dominate popular taste, his shows won't do well in syndication and thus won't make real money. But Cannell thinks the tide will turn again. Says he: "Five years ago the networks thought half-hour sitcoms were dead, and look what happened. I really know how to do hour-TV, and if I can keep on making shows for license fees plus foreign sales plus cost of overhead, I can stay in business."

So, while Cannell the writer types away at his scripts, Cannell the businessman is trimming sail. He began construction last month on a $20 million film studio on 15 acres in Vancouver, B.C., where he says he saves 10% on costs by filming away from Hollywood. He's also been diversifying into the production of television commercials.

So fear not for Stephen Cannell's old age, even if the public tires of his particular brand of fantasy. Cannell the businessman will take care of the future. The Cannell Studios' 500-hour library of shows grows more valuable with each season, as each new episode added means one more episode eligible for sale to syndication. MTM Productions, with its own 1,000-hour library of shows, was sold last month for $320 million to the London-based media conglomerate Television South Inc. While MTM's library contains some half-hour shows, which are more valuable than hour shows, Cannell's library ought arguably to be worth nearly half that much.

Secure with this nest egg, Cannell refuses for now to follow the Hollywood crowd in taking his company public. "I don't want to have to answer to anyone at all," he says. And thanks to his twin talents, this dyslexic kid doesn't have to. ■

Numbers Game

Investors were burned because some HMOs did a lousy job estimating and reporting expenses. It's time accountants did something about the scandalous situation.

Grope in the dark

Chas B Slackman

By Jill Andresky

INVESTORS IN THE once-vaunted HMO industry have been getting some rude shocks lately. Many of the publicly traded companies are now admitting in their annual reports that they overstated earnings, not coincidentally, during the same years that their stock prices were flying high. Thus, U.S. Healthcare had to take a stock-knocking $51 million hit to earnings last year, and recently announced another $10 million hit to correct the problem. Maxicare announced a $25 million error caused by faulty accounting at a company it acquired. Other companies reported smaller adjustments.

The problem is a simple one. Like insurance companies, HMOs must report current expenses each quarter without knowing exactly what they are—since some claims for a current quarter crop up later on. Known as "incurred but not reported" expenses, they arise, for example, when a doctor's visit is reported late.

Since accounting rules are vague, they can create temptation for HMOs to make their earnings look good by making modest assumptions about probable costs. These lowball estimates can have the effect of inflating earnings for the current quarter, but later on when the bills come in the HMOs naturally have to pay them, and their earnings consequently get clobbered. How much the company's earnings actually bounce around depends on, among other things, how the HMOs account for these incurred but unreported expenses. Some HMOs now record them on a cash basis, others accrue all known costs—even if unpaid—up to the date of their financial statements. "Some include partial estimates for estimated expenses, a few don't even include anything," says Lester Heyboer, a health care specialist at Seidman & Seidman.

The American Institute of Certified Public Accountants wants to see HMOs held to more consistent standards, requiring HMOs to readjust current expenses whenever it becomes evident that past expense estimates were inaccurate. But this still leaves the HMOs a lot of leeway—too much perhaps. "After all, HMOs are far better positioned than other insurance providers to know, in advance, quite accurately what their medical expenses will be," says Douglas Sherlock, of Sherlock Co. in Gwynedd, Pa., who follows the industry. That's because HMOs require patients to get authorization before surgery or other costly medical treatment.

What's the best solution? Edwin Gordon, a health care analyst at investment firm Tucker, Anthony & R.L. Day, offers one that is both simple and obvious. Says he: "I'd like to see all firms go back and restate their quarters accurately so that everyone could have the benefit of finding out what really happened and when. It makes a big difference to know whether a company really blew it once or just makes a practice of misrepresenting their costs." Good point.

More is at stake than academic arguments over accounting principles. Until investors have more faith in reported earnings than they have today, it is unlikely that they will troop back into the stock market. ■

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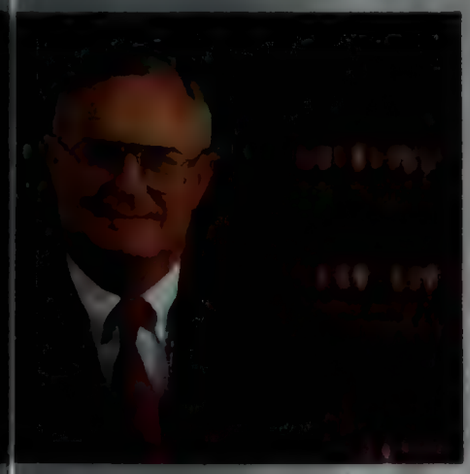

"Office automation that took the Hillsborough County State Attorney's Office into the 21st century in less than five months."

ctions," explains James. "We're scattered between five different buildings and we're *still* expanding. e system gives our attorneys access to the information they need, when they need it. And that es them up to prosecute more effectively."

Bill James continues, "We knew what we wanted to do and that we had to do it fast. We also w we had to protect the state's original investment in hardware and software. Digital took us m an item in the budget to operations in about 140 days. They also give us a seamless growth h, no matter how big we get."

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Among luxury items, fine china has been a growth laggard. Baron de Schorlemer plans to change that. So do his competitors.

"We will remove the cobwebs"

By Tatiana Pouschine

DOES THE TABLE you set speak of gracious living? Will trendy guests turn up their noses at your china? Do you use the same old china for every occasion? Baron Antoine de Schorlemer plans to add these worries to your growing list of insecurities.

The baron is managing director of Villeroy & Boch (pronounced BOK), which opened a new store on an elegant stretch of Madison Avenue in New York in May. A china pattern of primrose and waterlilies fills the glass front at street level; black, green and sienna marble patterns pull the gaze back into the store; a winding staircase, lined with vases, entices the prospect to further browsing.

It's not just another store but a whole new approach to selling fine china. Not just to brides but to the upwardly mobile as they move upward, the late marriers, the 40-year-olds who have traveled around the world, dined out endlessly but now have children and are staying home.

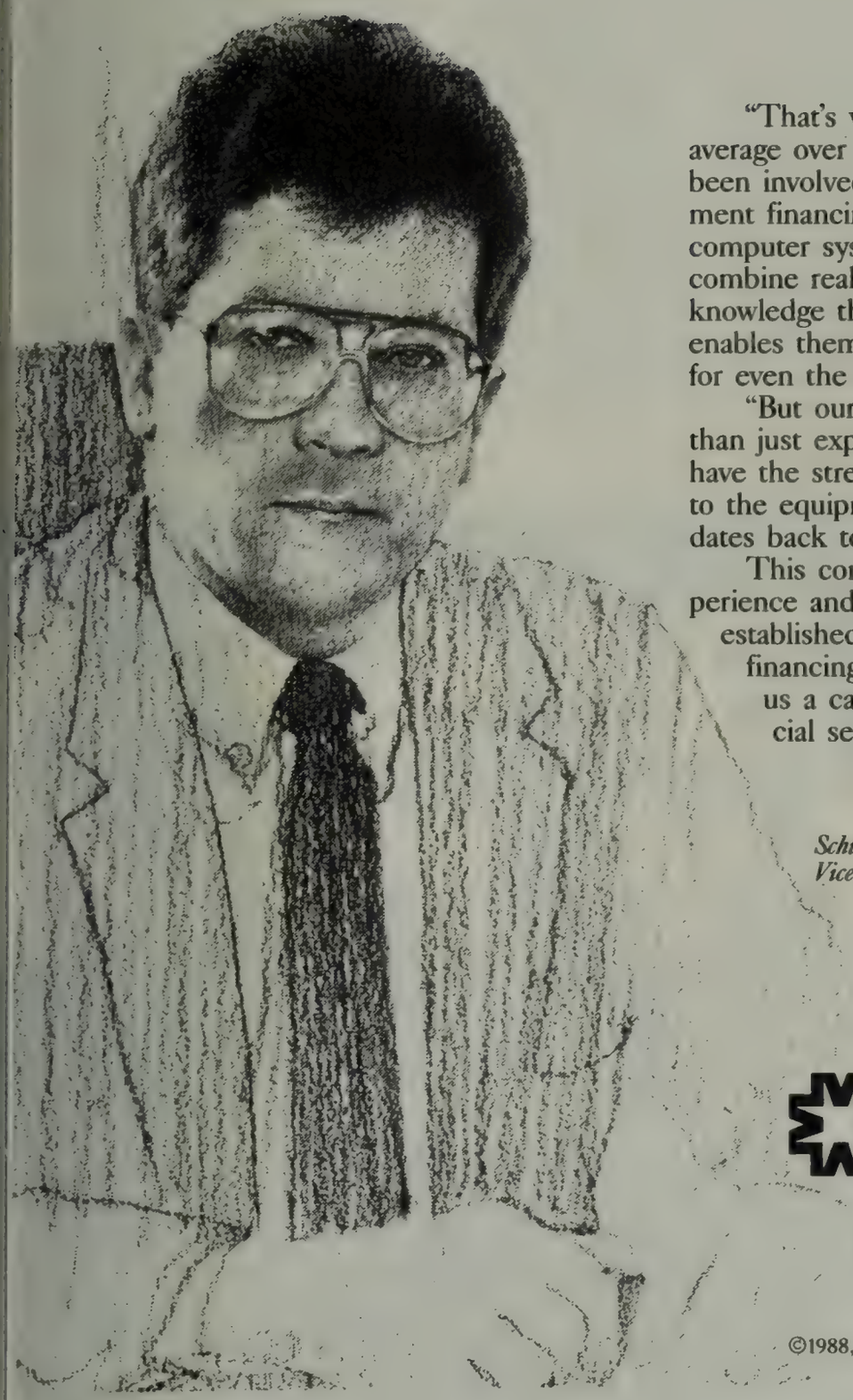
Will these consumers begin to entertain? Will they consider something other than paper plates and backyard barbecues? There is evidence they will. Over 100,000 copies of socialite Letitia Baldrige's *Complete Guide to A Great Social Life* have been sold. The subject is graceful entertaining and it includes Baldrige's ideas about the importance of a nicely set table.

Villeroy & Boch is a closely held, 240-year-old German firm that is hoping to do for fine china what Field-

Shonna Valeska

Dale Ritter, Villeroy & Boch's U.S. president
How many china patterns do you need?

"The only substitute for experience is more experience."



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crest did for sheets in the 1970s (FORBES, *Oct. 1, 1977*). Fieldcrest introduced designer sheets. It's hard to recall that before that Americans used mostly white sheets.

V&B is already the largest manufacturer of ceramics in the world. It had sales last year of $680 million and has a healthy market share, ranging from 10% to 25%, in nearly every country in Western Europe. But in the U.S. it is still relatively unknown, with sales last year of only $25 million.

It bothers the people who run V&B that a nation that spends more on luxury goods than any other is still relatively cool toward fine china. Part of the problem is clearly the way it has been marketed. Typically, china today is displayed on the fifth or sixth floor of a department store, with plates lined up like targets in a shooting gallery. Dale Ritter, who runs V&B tableware operations in the U.S., thinks having one's own stores will be much more effective.

The first V&B store is a 3,500-square-foot, carefully designed space. Each of V&B's 100-plus patterns is displayed to hint at a lifestyle. There are many set tables, mock rooms. The patterns range from florals suggesting sunny country weekends to geometric designs evoking dinner jackets and bouffant gowns.

Old world product, old world grace, old world service. One customer in the V&B store recently was served Perrier in an Italian-patterned crystal glass while looking at small wedding gift items. Another, looking for dishes that would stand up to rough family use, got a convincing demonstration: The clerk threw a fragile-looking plate on the floor, with no damage. When a pattern is chosen, the salesperson consults a computer and determines a precise delivery date.

Old-fashioned service, newfangled promotion. China Manifesto, V&B's irreverent promotional leaflet, promises to "liberate china." Sample: "If your table is uptight, your guests may be, too. . . . You have a personality, so should your table." Sample: "You don't serve boring food. Why set a boring table? . . . Do you wear the same outfit every day? We hope not. And we equally hope that your table is as interesting and warm and diverse as the world we live in."

Note again that V&B has moved a long way from the traditional bridal market. It is seeking to broaden its base by emphasizing that fine china is not just something you have on the shelf. You use one pattern Tuesday morning, another Friday night. The next week you reverse the order.

Edward Yardeni, director of economic research at Prudential-Bach has compiled statistics that indica the time is ripe for V&B's marketin efforts. According to his number consumer spending on china, glas ware and tableware grew about 5' last year, to $12.5 billion—a nice gai But fine china ($46 a place setting ar up) isn't getting much of this. Nun bers are hard to find, but one analy estimates the entire fine china ma ket amounts to only $500 millio Richard McGuiggan of Macomber A sociates, who tracks sales in depar ment stores for manufacturers, b lieves the fine dinnerware market stagnant. That may be because d partment stores have lost marke Their share dropped from about 70' to 60% in recent years. A few depar ment stores, such as Bloomingdale and Macy's, have started marketing the potential new consumers.

So the field is ripe for promotic and hype—and Baron de Schorlem is giving it both. So are some of h competitors, and the results sugge the market is receptive. V&B's stil small U.S. sales gained 50% last yea At Lenox, the Brown-Forman subsi iary, with about 35% of the curre market, sales have been growing 14' a year for the past five years. They' been growing 10% a year for the pa five years at Noritake, the private Ja

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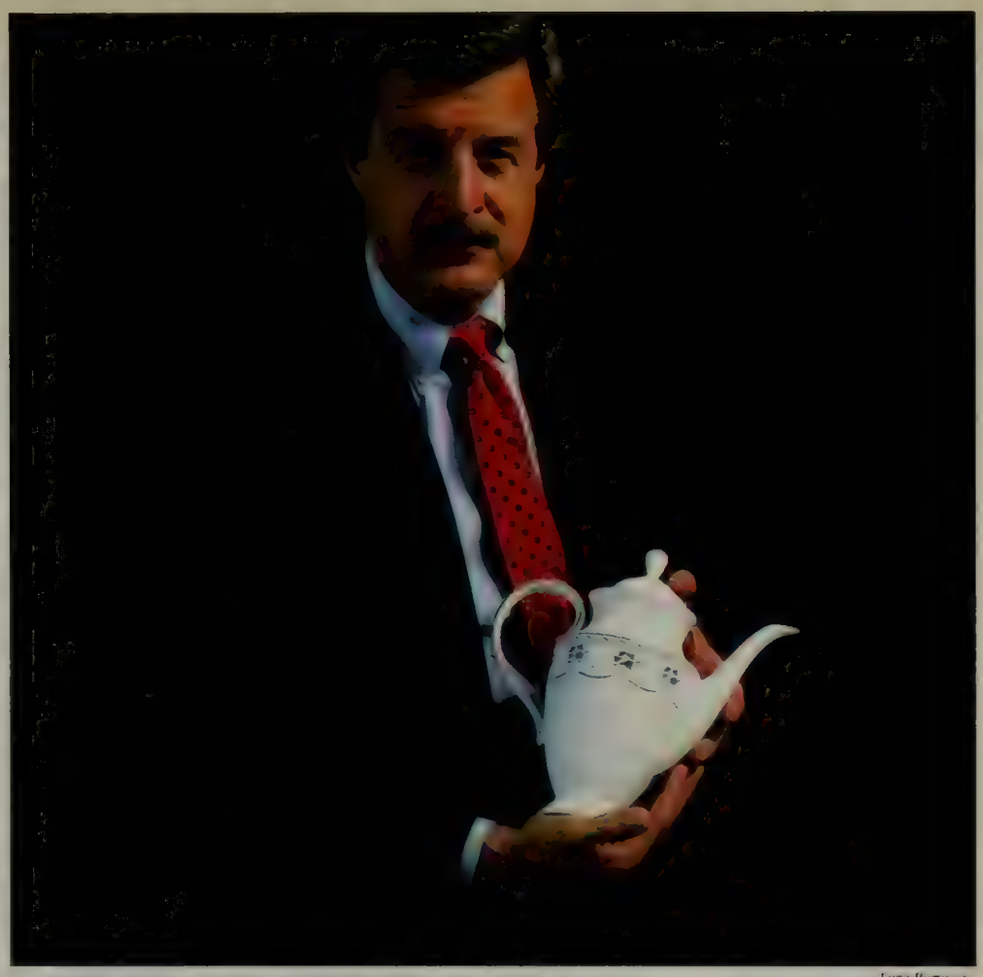
nese company, which, with about 5%, has the second-biggest market hare. Wedgwood, which was purhased in 1986 by Waterford, the crysal manufacturer, has introduced the Royal Court collection, demonstrating how traditional stately patterns an be mixed to create informality out of formality. According to William George, head of U.S. operations, Wedgwood increased its market share rom 7% to 9% last year.

Lenox has already opened one store n suburban malls and has directed Marcel Juillerat, its head designer, to levelop bolder patterns for the new consumers. It is also flexing its muscle with retailers. Safford Sweatt, company president, says Lenox won't hesitate to pull its business from stores that don't display its products carefully, or, even worse, transship goods to unauthorized discounters.

Even cautious Noritake has a few nnovative patterns along with its traditional florals. One, an inexpensive pattern called Boulder Ridge, is reminiscent of American Indian folkcraft.

Says Wedgwood's George: "Wedgwood is like a fragile, lovely, 80-year-old woman with cobwebs in her hair. We will remove the cobwebs." He could be speaking for his whole industry. Have you checked your china cabnet lately, folks? ■



Lena Bertucci

Safford Sweatt, Lenox president
Bolder patterns for the new consumer.

PT SECRET
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A shrewd young movie exhibitor and his father are showing that there is plenty of money to be made by putting big screens in small-town America.

A Wal-Mart for the movies

Terry Parke

Michael W. Patrick (holding popcorn bag), *president of Carmike Cinemas Inc*
Running monopoly operations in nearly 60% of its markets.

By William P. Barrett

At Carmike Cinemas Inc.'s headquarters in Columbus, Ga., computer printouts detail the performance of the 670 screens in its 216 movie theaters across a dozen southern states. A single word appears next to most of the listings: "monopoly."

Carmike, the nation's fifth-largest movie exhibitor in terms of screens (1987 revenues, $84 million) and by far the biggest in the South, runs the last picture show in nearly 60% of its markets. It has a majority of the screens in another 20%. The monopoly cities are mostly small towns—places like Prattville, Ala., Enid, Okla. and Longview, Tex. But Carmike also owns all the outlets in a few larger markets, notably Montgomery, Ala. (metropolitan area pop. 300,000) and hometown Columbus (metro pop. 250,000).

Carmike's strategy—similar to Sam Walton's Wal-Mart Stores but unique among major movie exhibitors—is to avoid built-up, hotly contested urban and suburban areas eagerly sought by its larger rivals, General Cinema, United Artists Communications, Cineplex Odeon and AMC Entertainment. It favors places offering easier (or no) competition, far less overhead and fatter margins.

"Our goal is to dominate the second-tier cities, areas with populations of 100,000 to 250,000," says Michael W. Patrick, the 38-year-old president of the company, named for himself and a brother, Carl Jr., who isn't active in the business. Now in 135 cities, Carmike is moving into Colorado, Montana and the Dakotas. It will open 35 screens this year and is planning to operate 1,000 by 1991. Says Michael Patrick, "We think there is a lot of opportunity in these markets."

Carmike is already regarded as the industry's low-cost producer, thanks in no small part to its rural orientation. Despite acquiring a rival 209-screen circuit in late 1986, yearly corporate overhead, excluding debt service, still remains a mere $3 million, a meager 4% of operating revenues.

Earnings per share jumped from 17 cents ($755,000) in 1986, the year the company went public and had a transitional nine-month fiscal year, to 55 cents ($3 million) in 1987. The movie business is notoriously cyclical and subject to all kinds of variables. But this year, helped by a strong summer season, looks like it will be a bit better for Carmike, even though first-half earnings, 15 cents a share, are below last year's 21 cents. The drop

comes from an unexpected first-quarter loss of 3 cents a share (compared with profits of 11 cents last year). Patrick blames the hit on a lousy crop of movies and a freak January snowstorm that forced most of its theaters to close for a weekend.

Whatever the reason, the loss partly explains why Carmike's stock, traded o-t-c, has fallen from $8.50 at the October 1986 initial public offering to about $6.50. (Black Monday, of course, is one big factor.)

In the investment community, Carmike has its detractors, some of whom point to the company's $67 million of long-term debt. It sits atop just $23 million of equity. However, cash flow, about $25 million, is more than adequate to handle the debt.

More positively, consider this: Cash on hand—$17 million—is more than half Carmike's current market capitalization of about $32 million. Valuing Carmike at six times its cash flow, adding the cash and then subtracting all liabilities, some analysts figure the company's net asset value is nearly $20 per share.

The theater business runs in the Patrick family's blood. Michael's father, Carl L. Patrick Sr., 69, who is the chairman and chief executive, assembled the chain for other owners, sold it in 1970 to Fuqua Industries (of which he became president) and bought it from Fuqua in a 1982 management buyout. Son Mike, who runs the day-to-day operations, has worked in the business for 18 years and hasn't taken a week's vacation in 10 years. All told, the Patrick family has 29% of the equity and 80% of the voting shares. Value of the family stake: about $9 million at current prices.

Carmike doesn't go into just any small town. Managers look for communities that have insufficient screens (generally fewer than one for every 10,000 persons) and preferably older, rundown facilities that are unattractive to customers. Then they either buy out the existing theaters if the price is low enough or, more often, build a state-of-the-art facility with 5 to 11 screens adjoining a suburban shopping mall. "Many of the towns we're going into are so small that once we're there, there won't be any potential left for other chains," says Michael Patrick.

Once positioned, Carmike, like other chains, squeezes every penny from each multiple-screen theater. By staggering show times, for example, one set of ushers, concession stand attendants and bathrooms can serve all auditoriums. Newspaper advertising, too, is more efficient. Multiple screens is the future. Carmike has just two single-screen facilities left, including the venerable Belle Meade in Nashville. Another sign of the changing times: It owns no more drive-ins.

In 1986 Carmike pleaded guilty to "splitting," or dividing up markets with competitors to stifle negotiations on new movies, and paid a $325,000 fine. But so far, Carmike's small-town-monopoly strategy has not attracted the further serious attention of federal antitrust regulators. One reason might be that Carmike, upon acquiring dominance, generally doesn't raise admission prices above the small-city average of $4.

But given Patrick's ability to keep overhead down and his highly developed merchandising instincts, Carmike can make good money even at relatively modest admission prices. "Many of our markets are near military installations, so films like *Rambo III* and *Dirty Harry* play even better than the national average, and we keep them longer," Patrick explains. What of the big screens' natural enemies, videocassette recorders and cable television? According to Patrick, loyalty to theaters remains strong among people in smaller towns. Carmike's major competition, he says with a smile, is "Friday night high school football."

All that could, and probably will, change. For now, Mike Patrick seems to be onto a winning strategy. ■

All you small-town investors: Edward D. Jones & Co. is happy to handle your brokerage account. Judging from the number of lawsuits filed, it will also be happy to unload on you some overpriced junk.

Jonestown

By Matthew Schifrin

THERE IS SOMETHING comfortably Middle America about Edward D. Jones & Co. of St. Louis. It's a folksy-seeming brokerage house. Although it has 1,350 offices in 37 states, nearly all of them are one-broker affairs and they tend to be in places like Moscow, Idaho or Ennis, Tex. or Magnolia, Ark., where you're unlikely to find Merrill Lynch or Prudential-Bache.

As befits a small-town broker, Jones welcomes small accounts. If you want 100 shares of General Motors or AT&T, Jones will buy it for you, maintain a custodial account, and issue you a monthly statement. An IRA? No problem. Some Treasury bonds? Of course.

Question: How do you support 1,400 brokers in towns too insignificant for a national firm? Ah, that's where the Jones firm stops looking folksy. Jones brokers, it turns out, make good money: A fair number clear $100,000 a year, which is a lot of money in Whistle Stop Junction. They make the bulk of it not with IRAs and GM but by peddling a good proportion of overpriced junk.

How can we tell? Because of the large number of lawsuits and complaints that have been filed by angry investors who have lost a lot of money in Jones' merchandise.

Jones' biggest legal headache to date is a class-action suit filed in April 1987 by 24,600 investors upset over $275 million worth of energy partnership interests Jones sold them in 1983. Jones brokers sold limited partnership shares in Natural Resource Management Corp. by touting a 15% minimum anticipated annual return. Instead, the customers lost most of their money. For every $1,000 that they put into this supposedly safe investment with a high return, they today have paper worth less than $50. No wonder they are suing.

What has the plaintiffs particularly angry is that the general partners at

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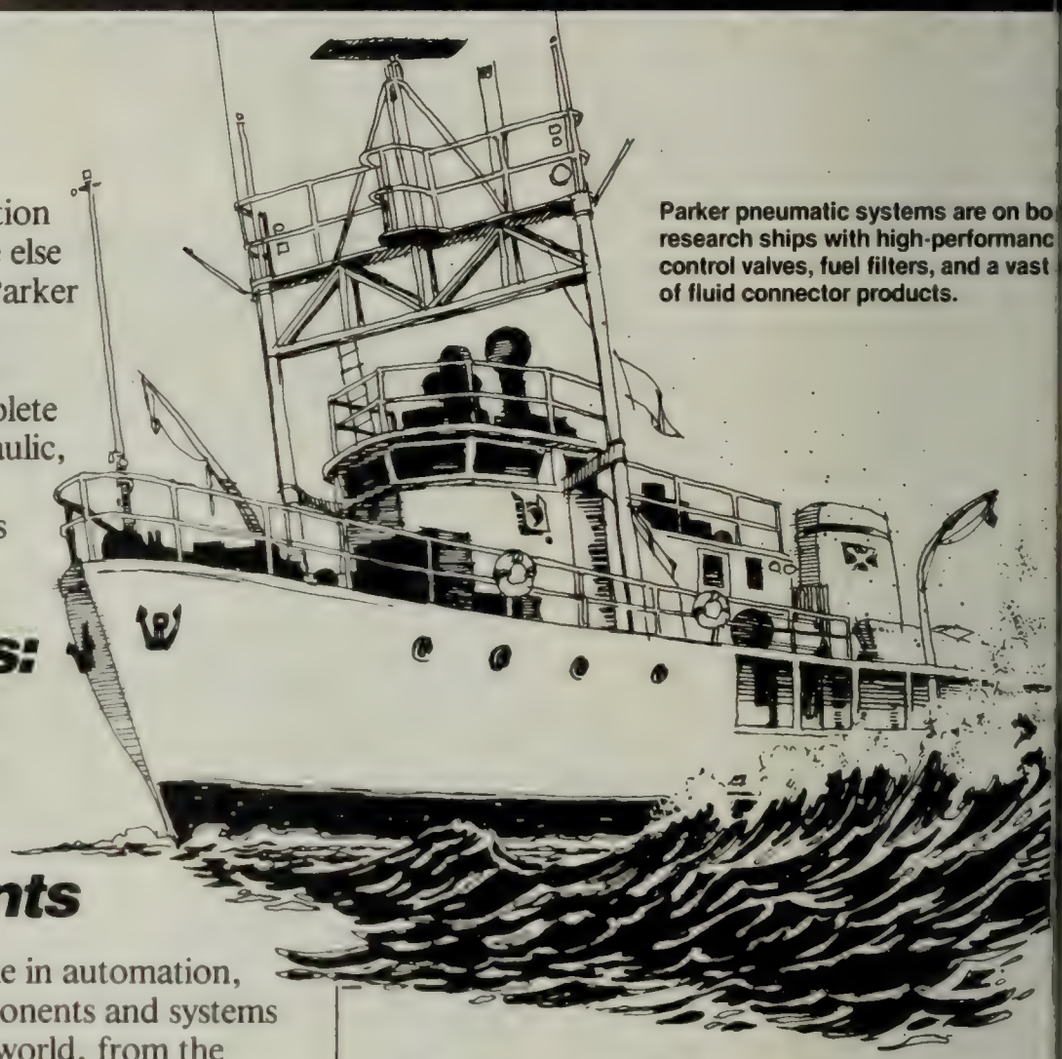

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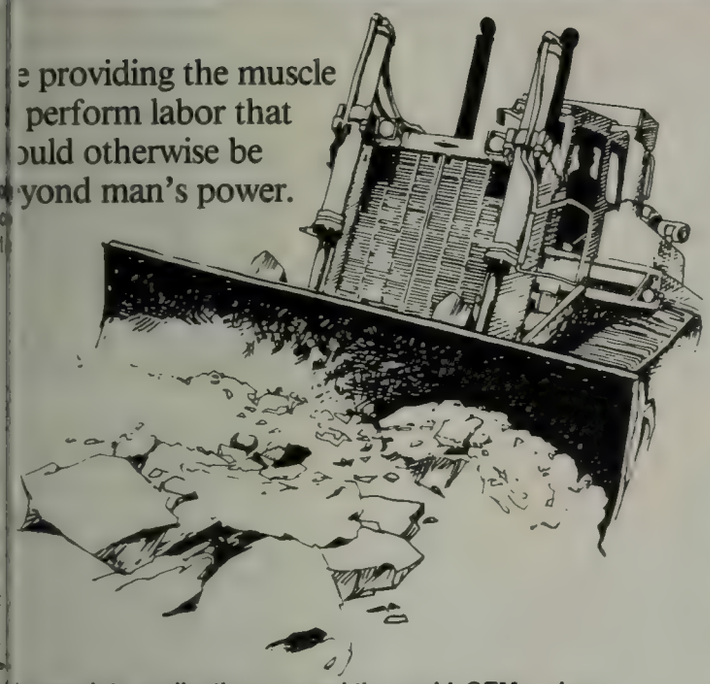

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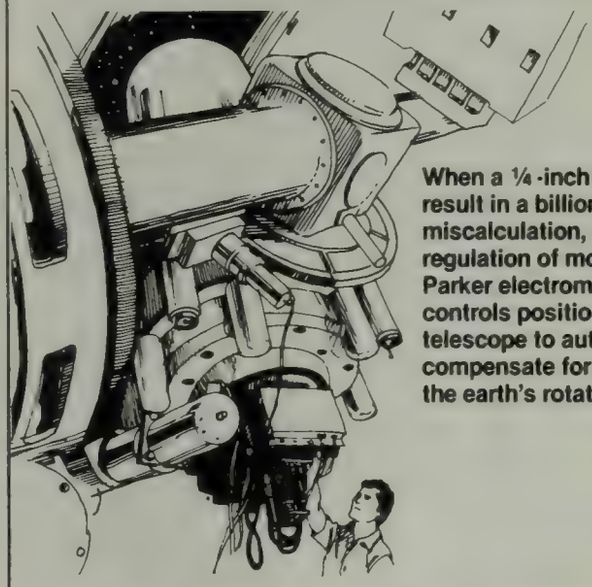

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John W. Bachmann, managing partner of Edward D. Jones & Co John Chiasson/Gamma Liaison

Making money in Whistle Stop Junction.

the brokerage firm, including John W. Bachmann, 49, the firm's managing partner, owned 33% of the managing company for the partnerships, paid for with $1 million in cash and $4 million in notes. Thus Edward D. Jones & Co. was, in effect, selling securities in which the brokerage's top brass had an interest.

Though the investors lost the bulk of their money, Bachmann and his friends came out fine. Why? While the partnerships were still riding high, they sold their own interest in the management company back to Natural Resource Management. Though Bachmann and his cronies eventually recorded a modest loss on the sale, they had already collected some $20 million in various fees.

Every broker has his sour product, but Jones seems to specialize in them. Earlier odiferous offerings included a $100 million debenture issue for Baldwin-United, an insurance carrier. Within nine months of the sale's completion, the bonds were in default. Jones brokers were also among the biggest peddlers of troubled energy partnerships offered by Petro-Lewis (FORBES, *Sept. 10, 1984*) and, more recently, a string of ill-fated real estate partnerships offered by Southmark Corp. (FORBES, *June 27*).

Edward D. Jones wasn't always run this way. Until 1980 the firm was guided by crusty Edward D. Jones Jr., 62 (still a general partner), a wildlife enthusiast who successfully promoted the firm's conservative "country broker" image. Under Jones' tenure the firm expanded at a modest pace.

In 1980 Bachmann, a lifelong employee who had worked his way up from messenger, became managing partner. Bachmann computerized the operation, expanded from 300 to 1,350 offices and began pushing everything from drilling partnerships to real estate investment trusts. Last year the $73 million (capital) firm organized as a limited partnership earned 12% pretax on $268 million in sales. That compares favorably with large publicly traded firms like Merrill Lynch, whose pretax margins tend to be around 5%.

One of the main reasons Jones has been able to prosper despite its difficulties lies in the unquestioning loyalty of its brokers. To become a Jones broker, one needs no experience, just boundless devotion to the company and a willingness to rub his knuckles raw knocking on doors.

"If I'm down in the dumps I know another Jones broker will travel 100 miles to cheer me up," gushes Festus Shaughnessy III, a Jones & Co. broker who was recently made general partner. "I live Edward D. Jones." Jones strengthens such loyalty by running frequent sales contests, with prizes like Hawaiian vacations.

If Jones brokers do well, they get a shot at becoming partners, with the opportunity to profit from deals like Natural Resource Management. Such investment deals range from real estate to cable television, and are common at Edward D. Jones. One, ED Leasing, a partnership controlled by Jones' general partners, even owns the corporate headquarters buildings for Jones itself.

For now, Jones is dealing with most "product problems" by quietly negotiating settlements of lawsuits, then shuffling defendant brokers to new offices elsewhere in the operation. It all seems to be part of the cost of doing business.

Bachmann expects to have more than doubled his branch network to 3,000 offices by 1992, and maybe even to have added a savings and loan. He seems to figure that, whatever else may happen in the U.S., the nation won't run short of suckers. ■

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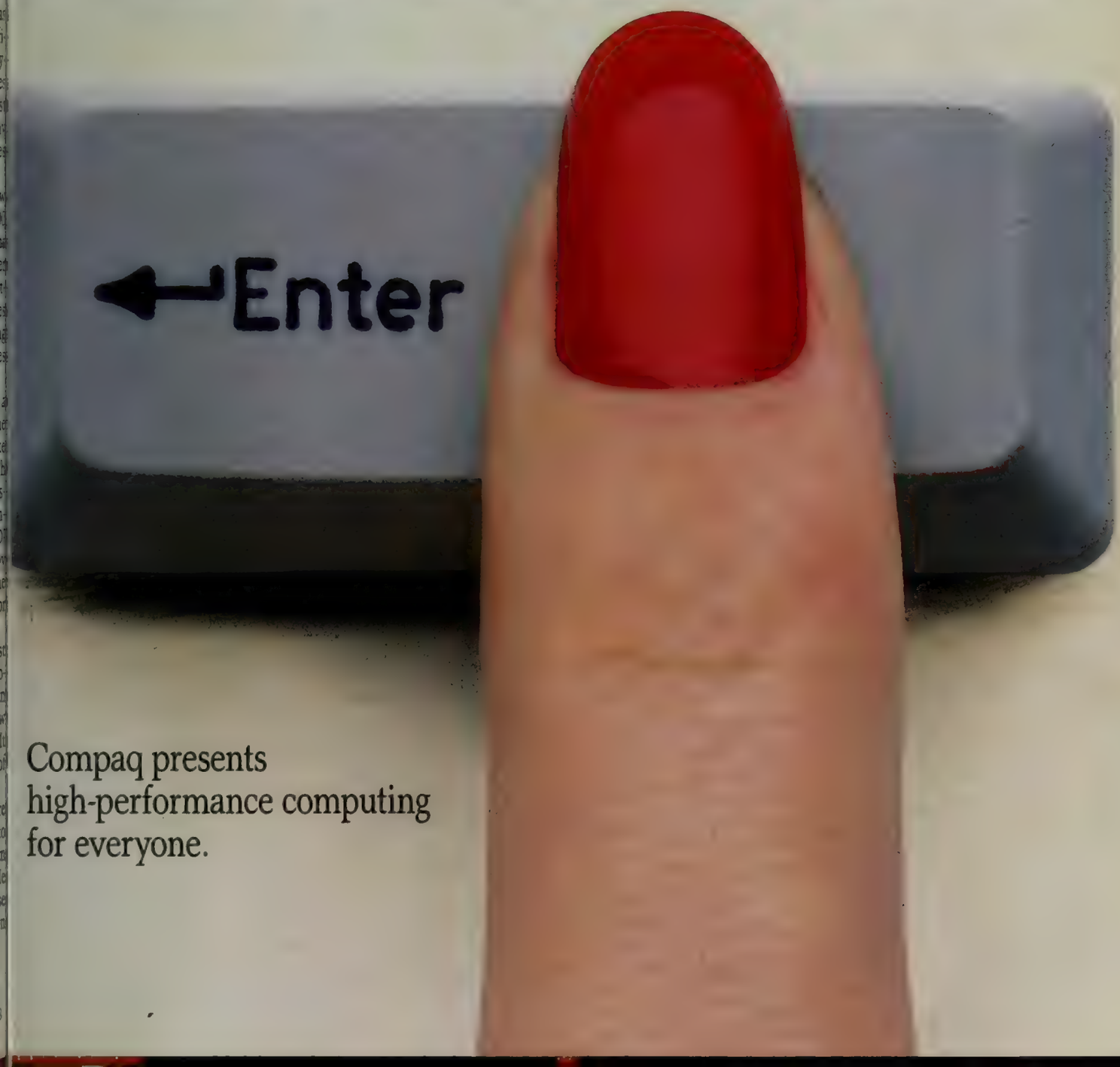

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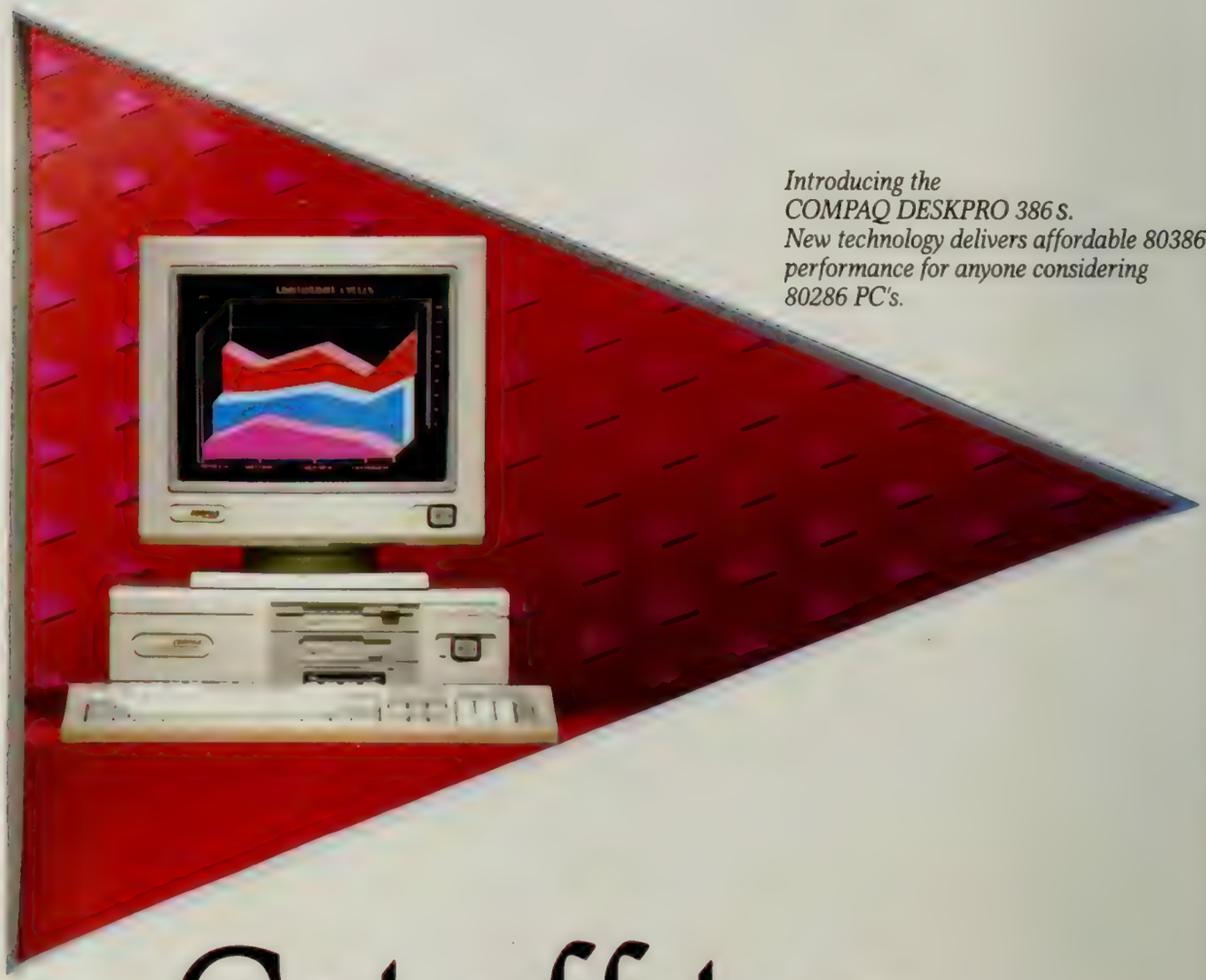

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Billions were made in foreign exchange trading when the dollar declined in almost predictable fashion. But this game is getting rougher and tougher as volatility increases. A lot of the players will be giving back their profits.

(Dangerous) fun and games in the foreign exchange market

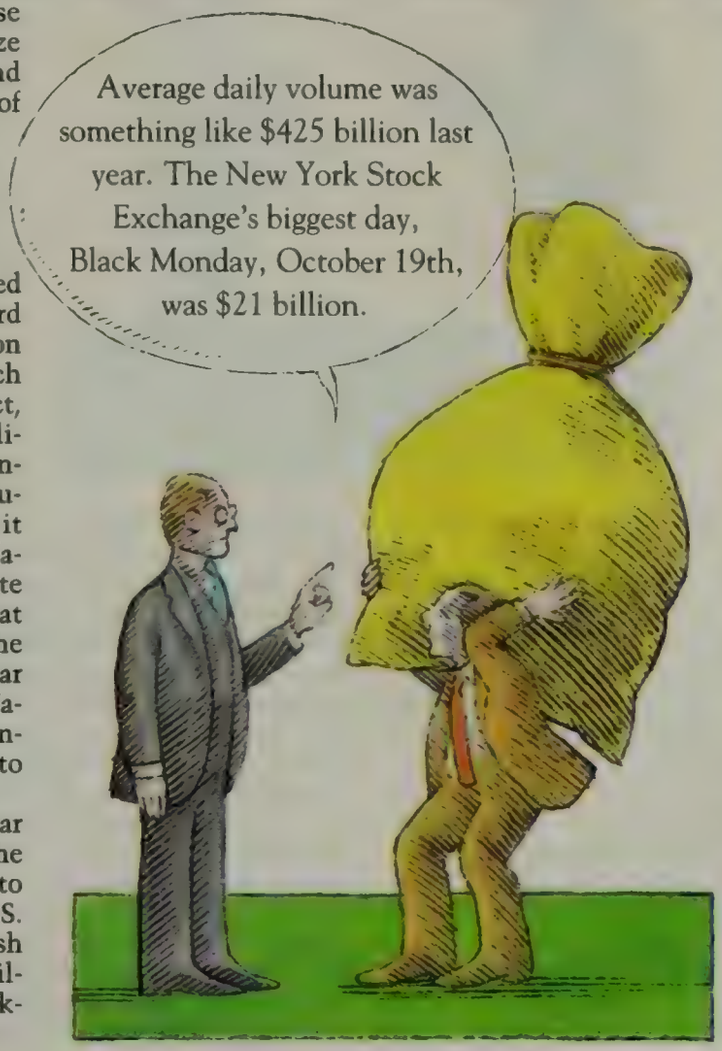
By Richard L. Stern

SUDDENLY, in 1985, perhaps predictably but certainly through no fault of its own, Waterford Crystal of Kilbarry, Ireland faced a potentially disastrous situation. The dollar began to sink against the Irish pound (and other European currencies).

This hit Waterford where it hurt. A Waterford wine decanter sold in 1985 for $150 in the U.S. translated into 148 Irish pounds. By July 1986 $150 bought only 106 Irish pounds. And since Waterford incurred most of its costs in Irish pounds, the crystalmaker seemed to face two unpleasant choices: raise its already high prices in the U.S. and almost certainly lose sales, or face a profit squeeze by holding dollar prices and accepting a lesser number of Irish pounds.

But there was a third way out, and Waterford took it. It locked in a profitable exchange rate against a significant part of its anticipated U.S. receivables. Waterford bought forward contracts on the Irish pound. That is, much as with any futures contract, Waterford purchased the obligation to buy the Irish currency up to two years in the future at an exchange rate that it estimated was sufficiently favorable to maintain adequate margins. That guaranteed that no matter how strong the pound grew against the dollar over the next two years, Waterford would be able to convert its receivables at close to the exchange rate of 1985.

By 1986, although the dollar had declined 30% against the pound, Waterford was able to translate $50 million in U.S. sales into 48 million Irish pounds instead of the 37 million pounds it would have taken in if it had done nothing.



Illustrations by Chas B Slackman

Time was when Waterford's only major problems were in manufacturing and marketing. Now it had an increasingly important third problem: currency exposure in the tricky new age of violent currency fluctuations. As with Waterford, so for almost the entire industrial world.

So far, so good. Businesses get some protection against wild currency fluctuations, and banks gain a badly needed source of income. However, markets have a life of their own. From this highly efficient worldwide currency trading market a sometimes frightening gambling casino has developed. Until a few years ago, currency trading was a relatively easy and highly profitable business for the 20 or 30 banks that dominated it. And U.S. banks had some 40% of the action. Acting as dealers, much like those in the U.S. over-the-counter equity market, these traders, mostly large banks such as Citicorp and Chase Manhattan, bought at the bid and sold at the ask. The spread, maybe 10 to 20 basis points, was thin, but there was little risk.

Today the market mechanism is still the same. But now, drawn by its immensity and profit potential, there are thousands of dealers. The new entrants vying for market share have caused spreads to shrink. To maintain their profits, more banks and other dealers are speculating rather than merely acting as dealers.

This creates enormous profit opportunities. New York's Bankers Trust is a major dealer and speculator in foreign currencies. Last year Bankers Trust earned a spectacular $593 million from currency trading. Citicorp showed $453 million in operating profits last year from foreign ex-

change; Chase racked up $232 million. Wall Street has jumped in as well. So Morgan Stanley realized an estimated $50 million-plus last year and Goldman, Sachs may have done at least as well. Combined profits of all the big players probably came to over $5 billion in 1987.

But speculation is a knife that cuts both ways: This year, under pressure from the Federal Reserve Bank of New York, Bankers Trust was forced to take an $80 million writedown on billions in short-term currency options. Although Bankers Trust denies it, it was reportedly selling currency options as far out as ten years. This in a market where liquidity thins to near zero as the expiration dates lengthen. The dangers, then: First, in these hair-thin markets, large buying or selling can cause violent moves. Second, what sort of crystal ball predicts the value of, say, the yen in dollars even five years from now, let alone ten?

Bankers Trust says its problem is simply a disagreement over accounting. Maybe so, but the disagreement turns a harsh light on the enormous difficulty of valuing options so far in the future. Banks often let traders price their portfolios, a sure way to get inflated values. But more than that, most of these hedging techniques are derived in one way or another from the Black-Scholes formula for pricing options. You remember professors Fischer Black and Myron Scholes (FORBES, *Jan. 25*), who came up with an options-pricing formula that became the basis for portfolio insurance. The formula works well, provided that financial markets stay open, trading is orderly, and volatility stays the same in the future as it has been in the past. Lots of laughs there. But lots of grief on Oct. 19, when the stock markets did none of the above.

In any case, both from the necessity of protecting business positions and from the opportunity for speculative profits and dealers' fees, people have been flocking to the currency markets. Average daily volume was $425 billion last year, according to estimates by Morgan Stanley. By contrast, on the New York Stock Exchange's biggest day, Oct. 19, $21 billion worth of securities changed hands. Today's mammoth foreign exchange trading volume is up from $300 billion in 1986, $150 billion in 1984 and estimates of $75 billion in the late 1970s.

But only an estimated 10% of the foreign exchange trading on any given day is directly related to foreign trade or investment. A transaction by a corporation or a money manager through a dealer to change $50 million into deutsche marks may grow to $250 million in trading volume as one dealer lays off positions with other dealers.

From mid-1985 until January of this year the market was reasonably predictable. "The trend is your friend," was the only principle traders had to remember. The steady erosion of the dollar against other major currencies since 198 *(see charts, p. 72)* pushed the markets in reasonably clea directions. And while that continued, the market was s forgiving that it was hard to make a mistake and easy t recover when someone did.

But the friendly trend—the 2½-year decline of the dol lar—abruptly reversed itself at the beginning of 1988. Th dollar rose 20% against the deutsche mark and 10% against the yen. After that abrupt reversal, nobody an longer believed that the game was predictable. The marke has simply outgrown the ability of the central banks t maintain stability. These banks, instead, must now try t control currencies more through hints and psycholog than through intervention. The total amount of dolla reserves held by all the centra banks is less than a day's trad ing volume.

Today, in short, the market rule, not governments. Let government announce an un sound fiscal or monetary poli cy, and its currency head south, never mind what th central banks want. Moreove the market is so interconnect ed that a move in one spo inevitably has repercussion elsewhere. It is like a drum Hit it in one spot and it reve berates throughout. Timin and interpreting those reve berations is not an easy game

Earlier this year, for exam ple, the U.S. pressured a reluc tant West Germany to lowe its interest rates in order t make the deutsche mark les attractive to foreign inves tors—and thus make the U.S dollar more attractive. On side effect of that was to wide the interest-rate spread be tween Germany and Britain creating a huge risk arbitrag play. Traders borrowed i deutsche marks, then sol deutsche marks for sterlin and lent the pounds at th higher U.K. interest rates.

As the rush to sterling caused pounds to go higher, th Bank of England intervened by selling sterling to forc down its price. Andrew Krieger, the man who made hug money for Bankers Trust last year, apparently smelle opportunity in this complexity. Having left Bankers Trus and working for money manager George Soros, he bough sterling eagerly even as the Bank of England was selling i At one point, Krieger apparently was long as much as £ billion. Her Majesty's Bank of England reportedly was no amused and suggested firmly that the young trader bac off. Note how a single trader could shake markets an come close to defying the mighty central banks.

For those hedging for purely business reasons, all this i incidental if they know what they are doing. If they don't Consider Lufthansa, which back in 1985 didn't get it righ It bet the dollar would continue to strengthen against th deutsche mark. So, to pay for hundreds of millions c dollars in U.S. aircraft, it tied up deutsche marks in th

:ward markets at above 3 marks to the dollar. Instead, e dollar fell to 2.75 in 1986, when the payment was ade. Since it had to honor its forward contracts, Luft-nsa reportedly paid 200 million more deutsche marks an if it had done nothing. What could Lufthansa have ne better? Combine an option with a forward so it would protected whichever way the currencies went.

Unfortunately, some businesses are blurring the line tween protecting their markets and playing for a specu-:ive buck. Eastman Kodak, a veteran player and major eculator, recently decided after a two-year study that at was not a good way for it to be doing business. It has parated its foreign cash flow management from its spec-ation, setting up the gambling operation as a separate ofit center. "Was Kodak :dging on cash flow or hedg-g on speculation? Often it dn't know," says a knowl-geable source. And the main ason speculation continues Kodak, says foreign ex-ıange planning chief David edler, is not for big profits ıt for "continuing intelli-nce into the markets so we ıve the best information 'ailable to hedge our cash ɔws worldwide." World-wise ɔndon-based British Petro-um still is a major specula-r. But that is a corporate ısiness decision, and BP's ırrency operation is for all tents and purposes a bank.

While Kodak is reluctant to lk specifics, sources say that ıstead of treating foreign cur-ncy simply as a nasty prob-m, it is now fully integrated ıto Kodak's long-term corpo-ıte strategy. So if the lower ɔllar means Kodak can ıarge less and gain an addi-onal 20% of a market in, say, ermany, the company would ıke forward and options posi-ons to keep that share even if ıe dollar strengthens.

Investment managers are :arting to dabble in foreign exchange hedging for their ortfolios. Some 1,000 of the nation's largest money man-gers had about $55 billion overseas in 1987, up from $9.8 illion just five years ago. Pension funds have some $50 illion, and Timothy Hultquist, Morgan Stanley's manag-ıg director in charge of foreign exchange, thinks that will row by the early 1990s to $200 billion. It is true, of course, ıat by investing overseas, the money runners are already edging against a weak dollar. But the unexpected rally in ıe dollar this year has convinced some that it is time to edge their foreign positions.

Foreign currency hedging is not cheap. The average remium on an option, for example, runs from 1.5% to 4% ut can be much more. So a hedge on $50 million into eutsche marks for one year might cost $2 million. As the xpiration date of an option or future gets further out, its rice goes higher. It gets more expensive, too, if the curren-y involved is more volatile or less frequently traded, like the Italian lira.

If you do business abroad, you don't have much choice: You pay the man or risk disaster. This creates irresistible opportunity for the growing number of salesmen from big banks and Wall Street. Their product development boys are working overtime, designing all manner of complex hedging products, combining forwards and options, allegedly to bring down transaction costs.

"They are selling black boxes based on calculus to people who can barely speak algebra," says Abraham George, a currency consultant with Multinational Computer Models, Inc. Likewise, Robert Baldoni, a foreign exchange consultant with Emcor Eurocurrency Management Corp., says he frequently finds that unsophisticated corporate executives are buying more or less protection than they really need. One client of Baldoni's was sold a hedge with forwards and options in a basket of five currencies when it would have been a lot cheaper for the company to hedge forwards and options individually in four currencies. It had no exposure in the fifth currency.

Only about 10% of the trading on any day is directly related to foreign trade or investment. A lot of the rest is gambling.

As the game gets more complicated, the risks grow. This huge 24-hour market is virtually unregulated. Not only can it be played in many ways, but major players can take huge and separate risks with various banks and dealers and exchanges without reporting what they have done to any of the parties. There are few disclosure requirements and therefore virtually no way for anyone to assess the total exposure of any given player.

Veterans remember the collapse in 1974 of Germany's Bankhaus I.D. Herstatt that seriously disrupted trading and caused millions of dollars in losses at companies around the world. Something like a domino effect. "I can't pay you, because he can't pay me." It took a concerted effort by the central banks to open the markets again.

But for all its dangers, hedging is no longer a luxury but a necessity: There is no way to stay out of this particular gambling casino. In fact, currency considerations cut to the heart of business strategy today. "The best way of hedging is with business strategy," says Yoshinori Yokoyama, a director at McKinsey & Co. in Tokyo. That's both wise advice and a bit frightening. It means that even long-term investment decisions must factor in unpredictable swings in foreign currency markets.

A wise foreign businessman recently spoke with FORBES about decisions he must make. Selling a large proportion of his products in the U.S., he at present manufactures only a small portion here. Should he commit hundreds of millions of dollars for more manufacturing facilities here to protect his market? Based on the current situation, the answer is yes. But who can tell where the dollar will be

during the years when the new plants are running and they must pay back their costs? How do you hedge such risks? You really can't. But neither can you avoid them.

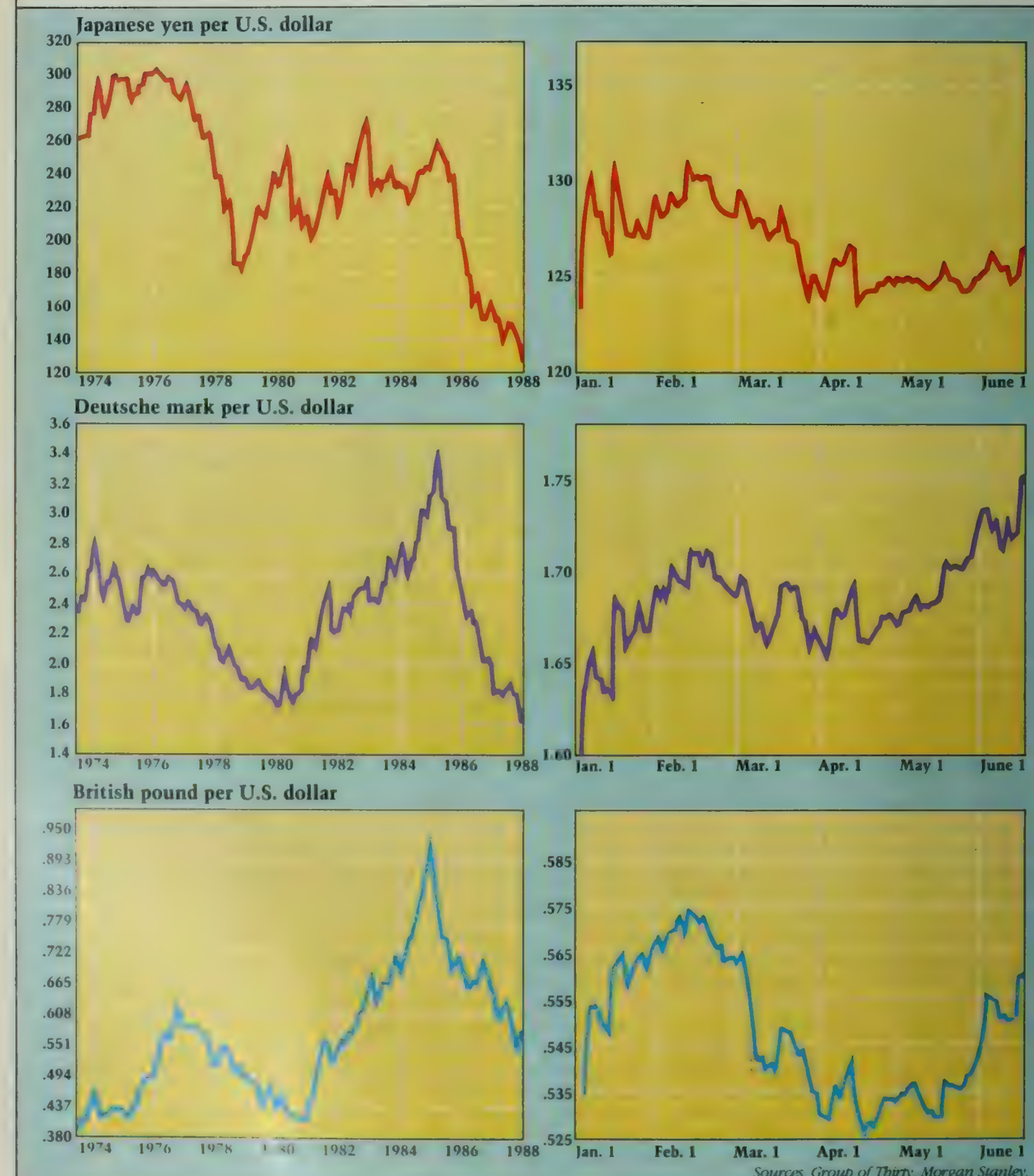
We started the story in Kilbarry, Ireland at Waterford Crystal. We'll end there. Waterford did more than hedge its currency risks. It changed its corporate strategy to deal with unstable currencies. Concluding from the experience that it had too many eggs in its American basket, Waterford bought British chinamaker Wedgwood Plc., which h more limited exposure to the U.S. market because it se worldwide. That lowered Waterford's dollar vulnerabil to 30% of sales and expanded its business into importa markets and currencies like Japan and the Japanese yer

We live in a world of unstable currencies—with no e of the instability yet in sight. We're all playing the ga whether we want to or not. ■

Phil Sche

The trend is your friend

Currency traders rode a fairly consistent market for the last three and a half years or so. Around the first of this year, though, the friendship suddenly soured as market jitters turned to high anxiety. Volatility, the trend squelcher, is now the enemy.



Sources: Group of Thirty; Morgan Stanley.

The dollar is likely to retreat again, and anyone who hopes for currency stability in the near future will be disappointed. So says Karl Otto Poehl, West Germany's chief banker.

"We shouldn't have illusions"

By Peter Fuhrman

KARL OTTO POEHL, president of the Bundesbank, West Germany's central bank, doesn't like what he sees: The U.S. dollar since April has climbed over 12% against West Germany's usually sturdy deutsche mark. The mark is falling against other key currencies, too.

"From the Americans' point of view, I can understand that they like to see the dollar firming," Poehl tells FORBES when we visit him in his 12th-floor office at the Bundesbank's Frankfurt headquarters. "It has a very positive effect on [U.S.] inflation. I can understand that both the Fed and the Treasury are not unhappy about it for the time being. But a high dollar really doesn't serve anyone's interests."

This is Germany's equivalent of Alan Greenspan speaking. When Poehl speaks, wise folk listen. Since 1985 West Germany's consumer price inflation rate has been zero. Most Germans admire that and credit Poehl for showing the necessary firmness. Though a senior member of Germany's opposition Social Democratic Party, the widely respected Poehl was reappointed by conservative Chancellor Helmut Kohl to a second eight-year term in 1987.

Why does this man disapprove of the strengthening of the dollar? He replies: "If [the dollar] goes too high—and maybe it has already—it could mean that the adjustment process in the U.S. would be postponed or would slow down. I think the adjustment process is under way and it will continue to make progress even with a slightly higher dollar. But it shouldn't go too far.

"It makes no sense that the deutsche mark is going to depreciate against other currencies," says Poehl. "A further deutsche mark depreciation means that our export surpluses will become even higher.

"The U.S. current account deficit is the problem. At $150 billion, it is now as large as last year's trade deficit," says Poehl. The high current account deficit comes from both the merchandise trade gap and mounting interest payments to foreign holders of U.S. government debt. "It is

Timm Rautert/Visum

Karl Otto Poehl, president of West Germany's Bundesbank
"People expected that central banks could keep exchange rates more under control."

LORD NELSON AND MILSTA

Trafalgar, 1805, the battle that was to lea the eventual undoing of Napoleon, was won cause Admiral Horatio Nelson had a secret wea signal flags.

The technique of communicating over long tances by coded flags had only recently been inver by the Royal Navy. It revolutionized naval warfare

The system enabled the British ships to co vast expanses of ocean, looking for the enemy, w remaining in close contact with the fleet comman It also allowed tactical flexibility once battle had b joined. Other navies were bound by rigid battle pl

upon in face-to-face councils long before the
ɔadside. They were confounded by the British
ɜir talking flags.

ɜ result of Trafalgar, and in large part this
unications system, was that Britain enjoyed
ɪuted rule of the seas and over a century of
peace; a *Pax Britannica*.

modern warfare, command, control, and com-
ation are as decisive factors as they were two
es ago and even more complex. History is pep-
with anecdotes of communication breakdowns
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The fine art of intervention

Each of the adversaries forces the hand of the other, and a reciprocal action results which in theory can have no limit." Thus wrote Prussian military strategist Karl von Clausewitz about armed warfare. He may as well have been describing the daily global combat between central bankers and foreign exchange traders.

The traders have the heavy artillery, $450 billion a day to trade on currency markets. By contrast, total central bank dollar reserves are about $250 billion.

Outgunned, the central bankers must rely on camouflage and deception. To check a rise of the dollar, sometimes the Bundesbank will ask the Bank of Japan to sell dollars on its behalf. That confounds the traders. Are the Japanese acting on their own account or in collusion? Unsure, traders hesitate to bid up the dollar.

The trick for central bankers is to make a small incursion look like an invasion. Timing is crucial. When the dollar was rising swiftly in early July, central banks were powerless to slow its ascent. Says one central bank foreign exchange trader: "We can waste $300 million without having any effect." The central banks wait for signs that the dollar is topping out. Then the Bundesbank calls several commercial banks indicating that it wants to sell dollars. Timed right, one small sale of dollars can send the currency hurtling downward as dealers respond to news that the Bundesbank is unloading dollars. The Bundesbank also likes to do heavy intervention trading in the thin Singapore and Hong Kong markets. The smaller the market, the less you need to spend to make an impact. A downward push on the dollar in Singapore trading can sometimes start an avalanche in Frankfurt.

No question: Clausewitz would have enjoyed the game.—P.F.

inconceivable that the rest of the world would someday hold trillions of dollars in claims and U.S. citizens would have to pay interest on those claims."

Poehl has little confidence that political jawboning and central bank intervention could halt another precipitous decline in the dollar. "People expected that central banks could keep exchange rates a little more under control. That is obviously not the case. . . . We are not able to stabilize the rates within small bands."

As a result of this inability of the central banks, Poehl sees continued instability in the foreign exchange markets. The fundamental cause of foreign exchange rate gyrations continues to be out-of-whack national economic policies. Whereas the U.S. has been growing rapidly for several years, West German growth has been sluggish. Unemployment remains stuck at 8%. More stable rates can come only when politicians agree to abridge their sovereignty sufficiently to permit the compromises necessary to coordinate economic policies among nations.

But isn't West Germany a villain in this script? Hasn't its fear of inflation caused unnecessary economic sluggishness? Poehl denies this argument. "I've argued for years that Germany has to contribute to the adjustment process by stimulating its domestic demand. We've done that. We have cut our taxes twice, and our imports have gone up substantially. The money supply is again overshooting its official target. This is always a concern for a central bank. You can't gain from a little more inflation."

Poehl continues: "We also accepted a substantial appreciation of the deutsche mark. This was a major contribution to the adjustment process. But now the whole scenario is changing. The deutsche mark is depreciating. Next year we will even see an increase in taxation on consumption in Germany." These tax increases will add 0.5% to Germany's inflation rate next year, pushing it toward 2%. His implication is clear: More inflation than that Germany will not accept, even to please the Americans.

Poehl thinks that a more dynamic German economy can't be achieved through easier money but would depend on structural reforms—something a central banker has no say in. "Nobody is really happy with the fact that our labor market is very rigid and that so many parts of the economy are highly subsidized," admits Poehl. "But it seems politically impossible to change this as quickly as is necessary."

His conclusion: "We have no chance to define any ty of target zones [for currency exchange]. That doesn't mea that one should give up the efforts to coordinate policie But we shouldn't have illusions. We shouldn't raise a expectations in the market that we can't fill."

The height of this folly, according to Poehl, was the 198 Louvre Accord. The agreement, pasted together by Grou of Seven finance ministers, pledged to peg exchange rat at February 1987 levels. "Despite the Louvre Accord, w had quite some volatility in the market. We started Louvre with [the deutsche mark] at 1.82. The dollar the fell as low as 1.58, and has risen as high as 1.89."

We asked Poehl about the prospects for the mucl discussed European central bank, which would, in theor be responsible for drafting a shared monetary policy for a the Common Market member states. Poehl was unequiv cal. A central bank of Europe, he said, "is far away. It's ha to envision that the European parliaments and gover ments would be ready to give real power in monetar policy to a supranational institution."

But don't take Poehl for a sour pessimist; he is merel realistic. For example, he is optimistic about the U.S economy. "I would argue that the U.S. still has enormou potential for growth. A certain current account deficit not something to complain about. What is worrying a the orders of magnitude."

Poehl notes that Americans are now the world's larges debtors. As such, they have a vested interest in lowe interest rates. And in this sense last October's stock ma ket crash was not such a bad thing after all.

"In hindsight, the stock market crash has had mor advantages than disadvantages," Poehl explains. "First c all, it led to lower interest rates. It dampened inflationar expectations and speculation. It did not lead to a recessior as many people expected. On the contrary, the real econo my, not only in the U.S., has done better."

He would dearly love to see the U.S. do somethin significant about shrinking its budget deficit. He says "Something must happen, at least a substantial reductio in the budget deficit. I think this can and will happen."

Poehl permits himself a kind, if admonitory, word fo the world's politicians: "They have learned their lesso and don't interfere as much in monetary policy as they di last year." ■

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/ David M. Roth

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number of business-format franchisors leaped from about 1,500 companies to an estimated 3,000 today. Put differently, franchising isn't just growing—it's exploding.

"Our clients are selling more franchises at a faster pace than I can remember in 13 years of doing business," says Patrick Boroian, president of Francorp Inc., a Chicago franchise development and consulting firm. Boroian also reports that franchising has gone upscale. "Franchising," he recalls, "used to be for companies that didn't have any money, that couldn't find motivated people, that just needed to grow quickly. Now, we're starting to see big companies that wouldn't have ever dreamed of franchising."

The change isn't just a matter of style. In many cases, self-financed growth via company-owned stores has simply become too expensive; and in high-growth industries where competition flies fast and furious, it is often dangerously slow. Franchising's appeal is that it allows a refined concept to be duplicated ad infinitum over many regions at a far lower cost.

For investors, the nature of franchising has changed as well. Today, it's no longer just a low-risk haven for middle American nest eggs. Franchise ownership has become a profitable parking spot for post-crash capital languishing in money market funds, a refuge for money that was once tax-sheltered in real estate, and a place to rejuvenate careers derailed by mergers and acquisitions.

Luckily, there's no shortage of companies to invest in. From quick lube outlets and print shops, to video stores and hair salons, to car washes and pet stores, franchising offers proven success formulas that cater to every commercial proclivity and budget. The following case studies profile the range of opportunities and the people who make them available.

Nick Yebba, president and CEO of American International Rent A Car, is one of franchising's more aggressive entrepreneurs. In the mid-1970s he built a tough, can-do image by turning a bankrupt Ajax car agency into a $7 million-a-year business. That success allowed him to buy American International, a licensee-owned company with 16 U.S. outlets in 1987. The problem was that more than a third failed to meet his standards. Yebba weeded out 65, and is now replacing them by selling "off airport" franchises to independent agency operators who need the resources of a national company to grow. To attract them, he's forged alliance

th travel agents and major corpora-
ns and launched an advertising cam-
ign designed to position himself as
e Lee Iacocca of the rent-a-car busi-
ss.

Newborn franchisors aren't the only
es hustling. Established companies
e Hilton Inns Inc. are breaking new
ound too. The impetus? "There's
en a tremendous amount of over-
ilding in hotels of 200 to 500 rooms,"
ys Lloyd Farwell, senior vice presi-
nt. Hilton's response is CrestHil, a
w, mid-market ($55-to-$75-a-night)
ain featuring Hilton-style amenities
thout the frills that typically double the
st: big public spaces, conference fa-
ities and posh eateries.

Accordingly, CrestHils have 156
oms and cost developers 30% less to
ild than the bigger properties that
w glut the market. To get these $10
illion projects off the ground, Hilton
fers a comprehensive building guide
at specifies everything from architec-
re to wallpaper weight. Those specs,
cording to Farwell, "eliminate three or
ur months of planning and a tremen-
us design expense. It is absolutely
ique in the industry."

In contrast, Econo Lodges of America
c. wants to tighten its grip on the
conomy ($35-a-night) segment of the
usiness by expanding its 440-motel
ain to 1,000 units over the next five
ars. To do it, the company is working
convert existing motel owners to the
cono Lodge system. It's not a hard
ll.

"Many people who've built hotels
oping to be franchisors discover that
s too difficult to establish a name
hen you're competing against national
ands," notes Robert Weller, presi-
nt. "We have a tremendous draw on
ur name" that unaffiliated motel own-
s would do well to consider. For a
20,000 franchise fee and the cost of
chitectural improvements, franchi-
es (or 'zees' as they're often called)
pically nail down pretax profits of 10%
30%. The critical difference, says
eller, is that Econo Lodges does not
and down arbitrary [capital improve-
ent] decisions. Every square foot
ves us a direct return on investment.
here's no wasted space."

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Like the franchising trend in general, demand for *What You Need to Know When You Buy a Franchise* has skyrocketed. Franchised sales of goods and services are expected to exceed $640 billion in the coming year, accounting for 34% of all retail sales in the U.S. At the same time, the number of franchise outlets in the U.S. is expected to grow from 479,000 in 1987 to 509,000 in 1988, providing employment for more than 7.3 million people.

With business-format franchising projected to grow during 1988 nearly four times faster than the GNP, more and more Americans are investigating the franchise option. They are attracted by the "win-win" situation franchising offers: the personal satisfaction and independence—as well as the financial potential—of owning one's own business, while minimizing the risks of starting a new enterprise. To help budding entrepreneurs in their search, IFA has published the acclaimed *What You Need to Know When You Buy a Franchise*.

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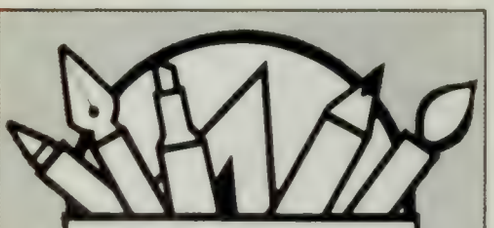

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ntinued from page 3

sees own more than one store. But in ent years, their endorsements have en muted by the same conditions that ve plagued the high-end of the hotel arket: too many stores, not enough stomers. Now, after two years of con- lidation among resellers, Computer- nd is on the move again. It plans to d 180 outlets to its network of 780 ores, opening wide a system that anaged to boost revenues 25% to .7 billion in 1987 without significant it growth.

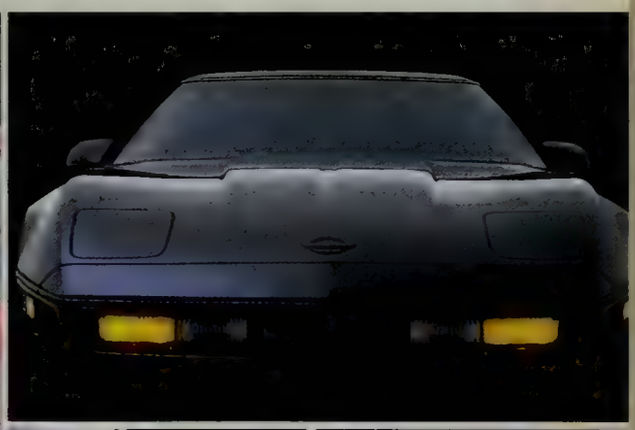
CelluLand Inc., a retailer specializing car phones, pagers and portable fax achines, hopes to duplicate Comput- Land's success in the nascent field of obile communications. How? With the mber of car phones estimated to np fivefold to 7.5 million units by 91, that's a $600 million market in rdware alone. It doesn't include reve- es from installation and service, or e ongoing 5% commission on monthly lings that zees collect from local one companies for selling the ser- ce. After three years, CelluLand's first mpany-owned store did $3 million in les with a pretax monthly net of 5,000.

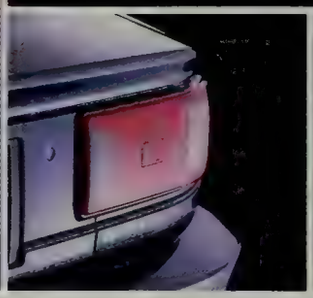
New technology hasn't been a boon ly to high-tech equipment retailers; s pumped life into a variety of busi- nesses. AlphaGraphics—a 19-year-old, $100-million-in-sales printing company that's opened 289 stores since it started franchising in 1980—is a case in point. Among the first printers to invest heavily in high-tech, AlphaGraphics claims it can turn print jobs around faster, and can service national accounts with its computer network. Such capabilities make for an image that upscale customers identify with. AlphaGraphic's zees certainly do. With average revenues of $564,000, the pretax net for stores comes to a hefty 55%.

Joe Osiel, president of Print Three, takes a different approach to the business. He targets corporate customers with desktop publishing, a service that he says "will eliminate typsetting requirements and let the consumer make competitive presentations, and have them done instantly." In Canada, where Print Three is based, the 18-year-old company has opened 100 stores since 1984, and sold rights for 175 stores in the U.S. Osiel is similarly enthusiastic about zees's earnings prospects. He says they can gross $400,000 their first year, hit $1 million in sales at maturity and net 30% to 35%. "The profitability under the electronic and desktop process," says Osiel, "is tremendous."

Postal Annex+ Inc., a 28-unit chain which started three years ago in mailbox rentals, has also jumped into the quick-print action. The logic? If customers are coming in for mailing, why not offer them the copying services they need, as well? The company installed Xerox machines system-wide and promptly scored a hit. Now, in addition to offering a full range of mailing services (UPS, Federal Express, etc.), Postal Annex+ churns out quick print orders in the thousands of copies. John Dring, vice president, expects zees to have gross margins of 50% on first-year sales of at least $125,000. Start-up cost: $55,000.

Netrex International Inc., an executive search firm, also turned technology to its advantage. As the only contingency firm with a system-wide computer link, Netrex can post jobs across its 36 outlets, giving zees a shot at splitting commissions with the listing office if they locate and place Mr. or Ms. Right. Netrex is also distinguished by its specialization in five areas: accounting and finance, sales, data processing, engineering and management. Franchisees pay $37,500 to $75,000 to get in, and can expect pretax margins of 25% to 35% on gross receipts of better than $1 million after two years and 30 recruiters on the job.





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Low-tech inspiration works fine to especially in the burgeoning quick lub and oil change business, a niche that grown 89% in units and 150% in sale since 1986, thanks to the disappea ance of full-service gas stations. One the leaders is AutoSpa Corp., creator AutoMalls. These one-stop shoppir affairs offer oil changes, lubes, c washes, auto detailing and flat tire pr tection —all under one roof. Each ca be purchased as a separate franchis or as an integrated package. The mix determined by the zee's budget and th available real estate, which AutoSp wisely controls through an in-house vision. That bit of vertical integratio has paid off: The company has opene 500 units of various configuratio since it began franchising in 1984.

Dan Hanna Car Wash also bases strength on real estate, much of it co pany-owned. "We aren't trying to attra deep-pocketed investors," says D Hanna, chairman and CEO. "We looking to expand the development properties for franchisees who can b the equipment."

Hanna, whose company has be manufacturing and selling car-wa machines since 1954, says there a 21,000 car washes in the U.S., but th 50,000 are needed. Hanna hopes grab the lion's share by making en into the business easy. The equipme costs $600,000 to $1.2 million, but Ha na is willing to finance. If you can p down a $20,000 franchise fee, $20,000 deposit on the equipment a show working capital of $25,000, y can own a veritable cash machine. car wash carries no inventory, no a counts receivable and all transactio are cash. Units gross anywhere fr $300,000 to $600,000 and net 17 pretax.

Midas Muffler and Brake Shops, a other benefactor of the service s tions's demise, is one of the auto aft market's undisputed kings. With 1,6 U.S. units and a 33-year track recor franchising, Midas enjoys a level brand name awareness that few co panies can top. Its 700 owners/ope tors agree: 70% own more than c shop. As for the gold, Ron Moore, pre dent and CEO, says established co pany stores gross about $500,000 a net 13%. Start-up cost is $125,000.

Some franchisors, like Staff Build Inc., have linked their strategies to e longer-standing trends—in this ca the boost given home health care skyrocketing hospital rates. Today, v 132 outlets, this $130-million-in-sa company is the third largest agency its kind. It offers a national back-of operation that handles accounting, p

l, credit and collection: services that ave operators free to focus on selling. es, who can also buy units specializ- g in clerical help, pay Staff Builders % of their gross margins for the as- stance, but can expect first-year sales $800,000 to $1 million.

Palmer Video, a 100-store video ain, is riding the crest of another ave—the move away from mom 'n p stores to "superstores," those that rry 10,000 or more tapes. With Palm-, as with all video chains, the name of e game is volume—getting a large mber of stores on the ground to cut ventory costs and spread the benefits co-op advertising. Palmer's strategy sts on its ability to build a superstore r half of what the competition spends d squeeze out equal or higher profits rough better space utilization, sophis- ated pricing and aggressive promo- n. The company expects its new ores to net 23% on annual sales of out $850,000.

In many service businesses, fran- ising has taken hold simply because s introduced a level of professionalism at wasn't there before. Such was the se with Fantastic Sam's. Says Sam oss, founder: "I looked at the hair care dustry the same way Ray Kroc looked hamburgers. It was a big business n by small-time operators." Today, ith 2,020 units in five countries and 50 million in annual sales, it is the rgest haircutting chain in the world. oss (who makes a point of telling you at he is absolutely, totally bald) says e wants "the man with a fire in his elly, the man who's looking for the eam." The 14-year-old company has nlisted 600 such dreamers, 99% of hom own more than one store. The ecret? "There isn't one," declares oss. "We simply outservice anyone in e business."

VR Business Brokers, the first fran- nisor in its field, instituted a similar kind f order. Recalls CEO Brad Bueer- ann: "We brought in a rigorous valua- on method that has set an industry andard," one that fetches a higher rice for sellers because it exposes usinesses to a larger, national buying udience. Formed in 1979, VR special- es in selling small, privately held com- anies. Last year, its 200 offices sold ,000 businesses, utilizing what Bueer- ann calls "a cross between manage- ent consulting, financial consulting nd job placement counseling," all skills at VR teaches. Franchisees who put em together split gross commissions f $250,000 to $500,000 with brokers, nd give VR 6% for the help.

Sales pros might also want to consid- r TriMark Publishing Co., a printer spe-

Travis Little, County Commissioner, developer and Econo Lodges franchisee, Corinth, MS, with Bob Weller, President of Econo Lodges of America, Inc., and Carla Robbins, Reservationist.

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cializing in direct-mail advertising. Modus operandi: Zees sell direct-mail coupons to small businesses and buy the printing wholesale from TriMark. Margins, which can reach 33% for zees grossing upwards of $1 million, are based on a guaranteed markup on printing of no greater than 10%. "It's like a huge co-op printing company," says a company spokesman. "We only make money when [zees] sell coupons." Since the company was founded in 1977, it's put 100 operators in business and boosted sales 25% a year to $10 million, almost double the growth rate of direct mail. Cost of entry: $29,900.

Jenny Craig International Inc., a 200-unit chain, puts a new twist on the old business of losing weight: It removes the fuss. Clients on Jenny Craig's regimen consume a specified blend of the company's own foods, and pay a flat fee for however many pounds they shed. Sold in area development packages of three to five units, these stores net 25% to 35% on annual sales of $500,000 to $1.5 million, and cost $100,000 apiece.

In contrast, Ed Kunzelman, president of Petland Inc., isn't looking for investors. Petland, he quickly informs you, "is an unusual business. People who want to be involved have to have a special feeling for animals," management and the delicate art of matching people to pets. Since the 19-year-old company began franchising in 1972, Petland has opened 154 stores, which on average net 19% on sales of around $600,000. For Kunzelman, the trick is finding the right people. "Owners," he stresses, "are our operators, and if it doesn't work for them it doesn't work for us. We sign the leases."

Koenig Art Emporium, a 103-store company, also occupies a unique niche in franchising: It is the world's largest chain of art supply stores—and, the only such chain to be found in shopping malls. It may also be the most diverse. With a line of designer furniture, lighting, silkscreen prints and picture frames, Koenig isn't just a retailer—it's a destination spot. Stores hit maturity in three years, at which point they're expected to be grossing more than $500,000. The start-up cost is $50,000 on a total investment of $225,000.

Then there is food. Historically the focal point of franchising in the public eye, it is represented here by I Can't Believe It's Yogurt, the third-largest yogurt chain in the U.S. with 157 stores. Says CEO Bill Brice: "The majority of people who buy our stores have tried the other yogurts and think our product is superior." That may have something to do with the fact that the compa makes its own and sells it to zees f about 25% less than what some cor petitors charge their operators. Resu The chain has enjoyed annual u growth of 50% for the last three year

These are, of course, the succe stories; but not every franchise conce flies. In 1987, for example, 104 franc sors operating 5,423 outlets failed, a cording to the Department of Co merce. And if that sounds high, it's n It represents less than a 5% mortal rate, far below the 50% failure rate curred by non-franchised businesses their first year. Still, the overwhelmi success of franchising should not taken as an invitation to throw caution the wind. Franchised businesses a just as vulnerable to recession, comp tition, and mismanagement as any o er business, and as such, should purchased with the same caution us in selecting any investment. How?

Consultant Patrick Boroian sa "The best way is to investigate the fra chisees. If there's 200 in a systen says Boroian, "call 40 or 50 at a mi mum. It's the fastest way to perform d diligence on a franchisor." ■

David M. Roth is a New York author who wr frequently on franchising and financial topics.

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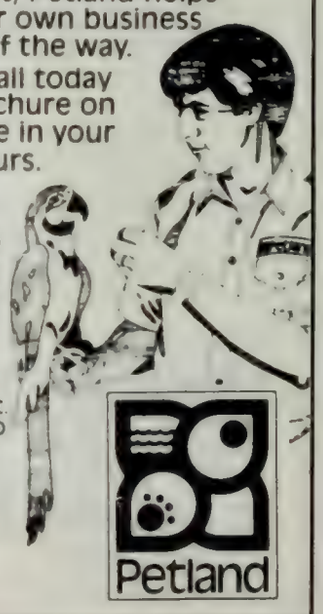

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On the Margin

In the heat of pursuing some cheap New York leases for his Bombay Palace restaurant chain, Sant Singh Chatwal caused himself some big headaches—and his unfortunate shareholders some big losses.

Merge in haste, repent at leisure

By Pranay Gupte

SANT SINGH CHATWAL, born in India to a Sikh peasant family, was 32 when he started Bombay Palace Restaurants Inc. in New York in 1979. The Indian restaurant chain now has 13 Bombay Palaces—in New York, Toronto, Chicago, San Francisco, London and Hong Kong—and several other ethnic restaurants. In 1986 the company reported earnings of $700,000 on revenues of $11 million. On the strength of those impressive earnings, Chatwal took the company public in July 1986 at $5 a share. By last year its stock was at 8⅝, making its 2.9 million shares worth more than $25 million and making Chatwal's 62% interest worth $15.6 million on paper.

Parlaying his luck, Chatwal—on his own, not through the company—paid $27 million in May for a long-term lease on New York's run-down Tudor Hotel. He had come a long way in a short time.

But recently Chatwal's business and his finances have taken a beating. Last year Bombay Palace lost $5.9 million on revenues of $24.8 million. Bombay's stock fell below 3 a share. At the heart of Chatwal's problems is a merger that he had hoped would propel Bombay Palace to new heights. Instead, the merger has bogged down into a nasty court fight against a business associate, New York restaurant operator Lawrence (Larry) Ellman.

Mark Seliger

Sant Singh Chatwal reading Sikh holy book
Inner patience may not be enough.

Ellman, 61, was chairman and a significant shareholder of Lifestyle Restaurants Inc., a publicly owned chain that owned, operated or franchised a total of 49 Beefsteak Charlie's restaurants, mostly in the New York area.

When Chatwal bought Lifestyle, it had around $26 million in accumulated losses on its books. Chatwal says he had heard about Ellman's reputation for rough business practices, and about his run-ins with liquor board authorities in New York and Maryland. But Lifestyle did own many cheap leases, several in high-cost Manhattan. "What was more important to me," Chatwal explains, "were the real estate opportunities."

Last September Chatwal agreed to pay almost 1 million shares of Bombay Palace stock—then selling at around 7 a share—for Lifestyle. In the deal, Ellman personally got 25,000 Bombay shares. As part of the merger agreement, these shares serve as full collateral for $500,000 Ellman had borrowed from Lifestyle originally to purchase the Lifestyle shares. That valued Ellman's Bombay stock at $20 per share, compared with 2⅞ now.

There was more largesse. Chatwal was so eager that he retained Ellman as president and chief executive of Lifestyle for five years at $400,000 a year. He personally guaranteed Ellman's contract with 300,000 shares of Bombay stock.

By January 1988, if not sooner, the Chatwal-Ellman honeymoon was over. In reams of legal filings lodged with the New York State Supreme Court, Chatwal charges that Lifestyle had sales tax problems with New York State; that Lifestyle didn't file a 1986 federal income tax return; that Lifestyle was liable for $287,670 in back real estate taxes; and that Ellman had not told him about any of these tax liabilities.

Citing this and more, Chatwal sued to cancel his $400,000-a-year contract with Ellman. This June the judge refused. Chatwal is now appealing that judgment, which could cost Bombay as much as $2.5 million.

Nor is the fight with Ellman the end of Chatwal's problems. In April Bombay Palace's Big Eight accounting firm, Peat Marwick Main & Co., dropped Bombay as a client and withdrew its certification letters covering Bombay Palace Restaurants' 1984, 1985 and 1986 financial statements. Given the likelihood of shareholder suits and the accountants' potential liability, this was a serious move. John Shutkin, Peat Marwick's general counsel, will say only that Peat Marwick quit the Bombay Palace audit because of unsatisfactory answers about "false and inaccurate" invoices for "restaurant renovations." Denying wrongdoing, Chatwal quickly replaced Peat Marwick with a more accommodating firm, Laventhol & Horwath.

Chatwal insists that Bombay Palace Restaurants will net at least $1.5 million, 36 cents a share, for 1988. But no one is listening. The stock remains below 3 and the case against Ellman drags on. Through all this, Chatwal says, religion gives him "inner patience—the ability to stay cool even when things are rough." Of course, he can afford to be patient, owning, after the merger, 48.5% of the company. Unfortunate coshareholders with smaller positions have less to be patient about. ■

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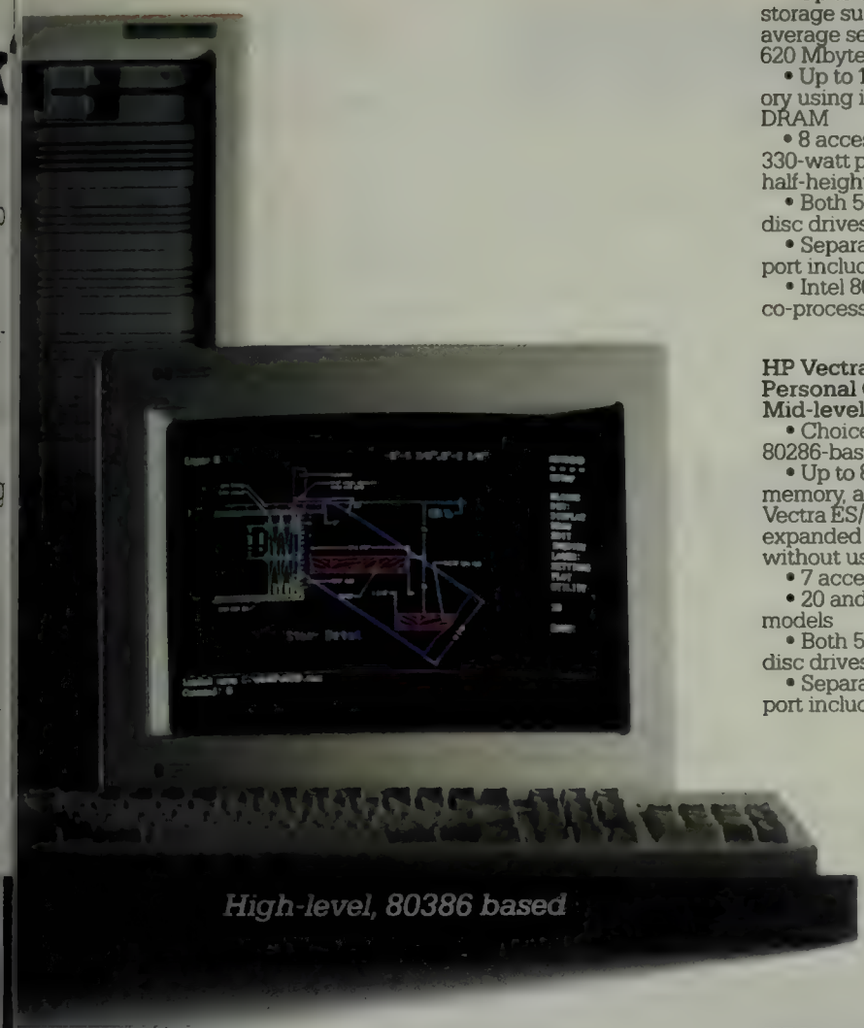

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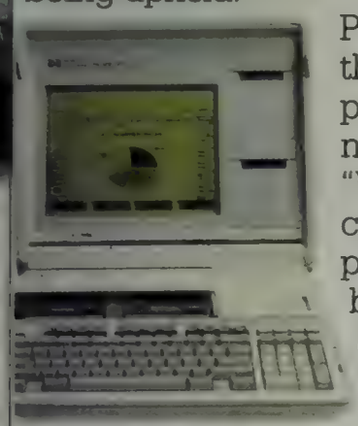

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Second Careers

San Francisco's Max Messmer threw over a $1-million-a-year job to become his own boss. How's he doing?

Midlife career switch

By John Heins

In the fall of 1985, Harold M. (Max) Messmer was on top of the world. He was pulling down $1 million a year as president of Los Angeles-based investor David Murdock's private holding company, Pacific Holding. As Murdock's top strategist and lawyer, he helped steer investments in Occidental Petroleum, Cannon Mills and Castle & Cooke. On Murdock's behalf, Messmer tilted against such heavyweights as Armand Hammer, Sir James Goldsmith and Irwin Jacobs.

Max Messmer was not yet 40.

But he wanted more. The profits from his work accrued to Murdock, as did most of the credit. Says Messmer, "I had to do something on my own." So in October 1985, he left to run San Francisco's Boothe Financial Corp. Boothe was a $30 million (sales) publicly traded land developer and equipment lessor that was going nowhere. But he was given options and enough cheap stock to give him almost 5% of the company's 11 million shares.

A big comedown? In fact, it was Max Messmer's launching pad.

Liquidating its old businesses, Boothe had nearly $100 million in cash. Messmer in July 1986 spent $20 million to buy Robert Half Inc., the franchisor for 110 Robert Half and Accountemps permanent and temporary job placement offices in the U.S., Canada and England. He renamed the company Robert Half International.

"I can't say I knew much about running a personnel services business," admits Messmer. But he did see great cash flow and a chance to buy out far-flung franchisees, centralize operations and cut costs.

As it happens, temporary employment agencies have become a terrific business. The annual payroll of temporary personnel has grown 20% a year since 1982, to $8.6 billion last year, as "flexible staffing" has become a popular way to reduce payroll costs. Growth has been even faster—33% a year—in Half's specialty, providing accounting and finance workers. Placing these better-paid, professional temps commands higher prices and margins than the clerical or janitorial temps that such firms as Kelly Services and Olsten mostly supply.

Ed Kashi

Robert Half's Max Messmer
No regrets.

Messmer so far has paid $110 million to buy out 76 previously franchised Half offices. "Before [Messmer]," says Stephen Ryter, Midwest regional director and a former franchise owner, "we were just a loose confederation of warlords. Now it's a real organization."

Many franchisees were happy to sell, having slowed down and neared retirement age. Others were tough negotiators. Robert Half himself—who founded the company in 1948 and is still a paid consultant—hired a private detective to search Messmer's past and insisted that Messmer fly his wife and children to New York, so he could better know to whom he was selling. Just over 40 independent offices remain, and Messmer is still trying to buy them up. He also wants to buy strong local competitors or open offices in around 25 U.S. markets where Half is weak or absent.

Now comes growth abroad. In Europe, where layers of job-security laws discourage companies from adding new employees, temp agencies are a natural. Messmer plans to open six new offices in the U.K. by next year.

Risks? McDonnell Douglas Corp. has started a lawsuit accusing Half of negligence in placing an employee who allegedly embezzled $155,000 from the defense contractor. A Pandora's box would open if McDonnell won. Then there is the business cycle. Some people think it may be peaking. Companies generally get rid of temps first when business slows. Half's selling, general and administrative expenses are some 34% of revenues, nearly twice the ratio at Kelly—reflecting higher advertising and compensation costs. High costs would hurt earnings badly in a downturn.

On the other hand, says Messmer, a recession could bring benefits: "We're tracking [bank and savings and loan] bankruptcy filings. Those institutions are going to have an awfully hard time hiring permanent employees."

The stock market remains dazzled by Messmer's financial results. The stock has quadrupled since Messmer took over, trading recently at 21 a share—a rich 19 times probable 1988 earnings. The numbers certainly look good. On sales of $106 million last year, Half earned $7.3 million, 63 cents a share. Earnings should rise another 80% this year, to $13 million—$1.10 a share—on sales of $190 million.

With stock options and bonuses, Messmer earned nearly $900,000 last year—close to what Murdock was paying him. But his profits so far on his Half stock approach $8 million. Instead of making David Murdock richer, Messmer is making himself and his public shareholders richer. ■

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Canada's increasing exportation of hydroelectric power to the U.S. is a case where both buyer and seller have much to gain and almost nothing to lose.

Power play

By James Cook

FOR NEARLY A CENTURY NOW, electric power has been moving back and forth across the U.S.-Canadian border as easily as it moves from state to state or from utility to utility within the U.S. Thus the U.S. gets low-cost power that would not otherwise be available.

It's an even better deal for Canada. The U.S. has bought more power than it sold, providing Canada with a favorable 1987 balance of $1.2 billion. The trade is likely to swing even further in Canada's favor in the future. By 1995 the U.S. is likely to buy 20% more Canadian power, the U.S. Energy Information Administration predicts.

For the Canadians, a U.S. market for their power has enabled them to develop some of their resources—the $12 billion James Bay hydroelectric project, for example—years earlier than they would otherwise, and to devote the proceeds to reducing their already low domestic power costs.

For the U.S. utilities, buying is not only cheaper than generating it themselves but also saves them the financial, environmental and regulatory problems involved in building new U.S. power plants. For example, Canadian power plants are not required to use expensive scrubbers to control pollution. Thus the New York Power Authority's new contract with Hydro-Quebec will, over 21 years, save New Yorkers $600 million over what they would have paid using oil. Central Maine Power's contract will save $465 million over 29 years; the New England Power Pool's contract, $1.5 billion over 10 years.

It's not wholly free trade. Canada shrewdly exacts its pound of flesh. Canadian producers—provincial governments mainly—can export only their power surpluses, and they have to price them more or less in line with the buyer's least-cost alternative.

Canadian power is lower cost in part because it is subsidized, either directly, through low-cost financing or tax breaks, or indirectly, through environmental exemptions. But even here the Canadians exact top dollar: Canada's National Energy Board requires producers to recover any subsidies in their export rates. Still, even after recovering these subsidies, Canadian power is cheaper than almost any new U.S.-generated power, mainly because it's low-cost hydroelectric.

Overall, imports supply less than 2% of U.S. electric power needs, but in the border states the proportion is much higher. Northern States Power imports about 7% of its power from Manitoba and distributes it to parts of Minnesota, Wisconsin, the Dakotas and northern Michigan. New York State gets 11% of its needs from Ontario and Quebec. New England now imports 6% from Quebec, but that proportion could increase dramatically.

"Canadian hydropower," according to a study Thomas Connell of Carnegie-Mellon University did for the Edison Electric Institute, "is capable of supplying nearly all additional capaci-

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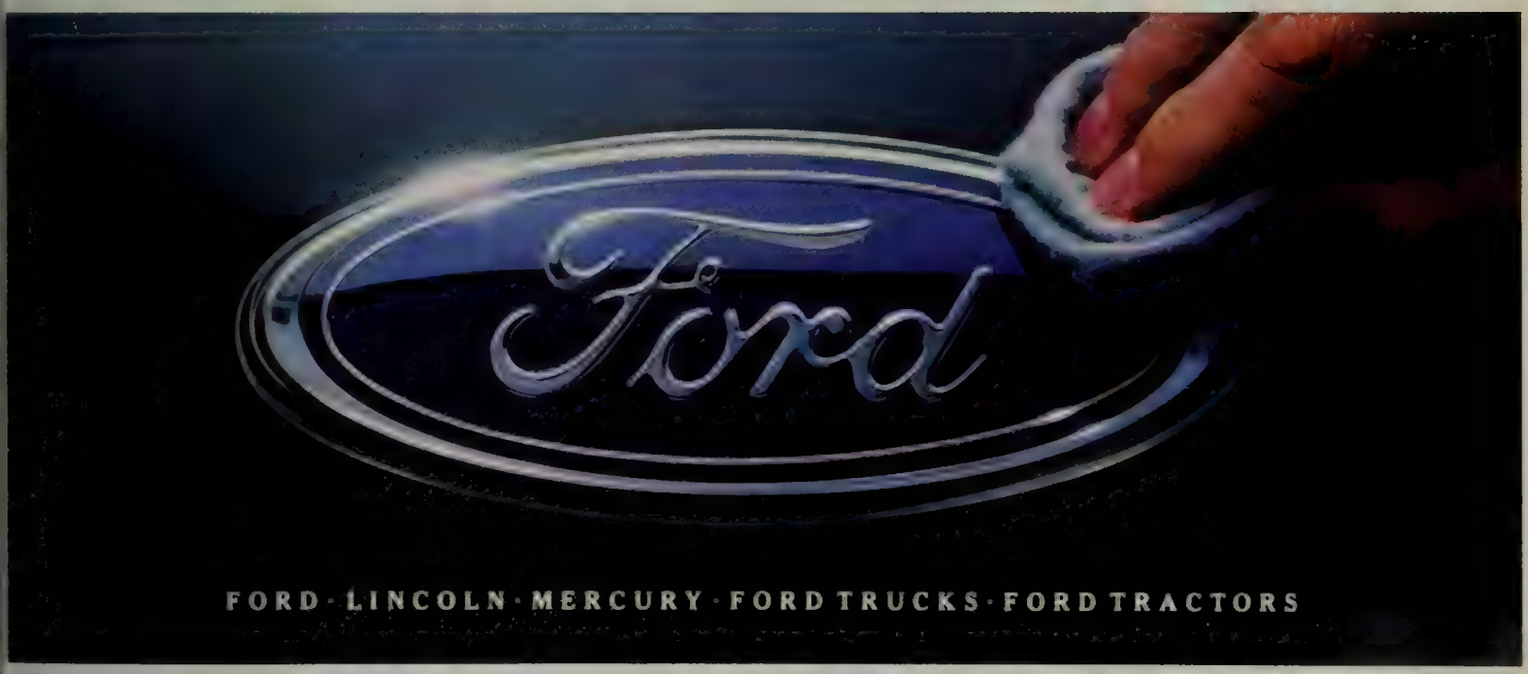

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ty requirements in some regions of the U.S. for the foreseeable future."

And there's no question that Canada is avid to export to the American market. Quebec already has major developments under way on the Manicouagan and La Grande rivers aimed in part at the U.S. market, while Manitoba and British Columbia have ambitions of developing sites on the Nelson and Peace rivers. Yet barely half of Canada's 120,000-megawatt hydropower potential has been developed *(see chart)*. More audaciously, New Brunswick is prepared to give part ownership to U.S. utilities in thermal or nuclear plants that it would build, free of U.S. environmental or other regulations, to serve the U.S. market.

Not everyone in the U.S. is happy with this situation. Coal producers most definitely are not. In a sense, every kilowatt-hour of power exported to the U.S. is a kilowatt-hour of power that could theoretically be produced by coal-fired generators in the U.S. The National Coal Association estimates that Canadian power displaced 6.3 million tons of U.S. coal in 1986 and, the way things are going, could displace 24 million tons a year by 1996.

Reflecting his state's interest in coal development, Representative Nick J. Rahall II (D–W. Va.) introduced legislation last fall that would prohibit the importation of Canadian power not produced in accordance with U.S. environmental laws, while Minnesota's Gerry Sikorski and California's Henry Waxman want to impose the same millage charge on Canadian hydro imports as their acid rain legislation would have EPA impose on U.S.-generated energy.

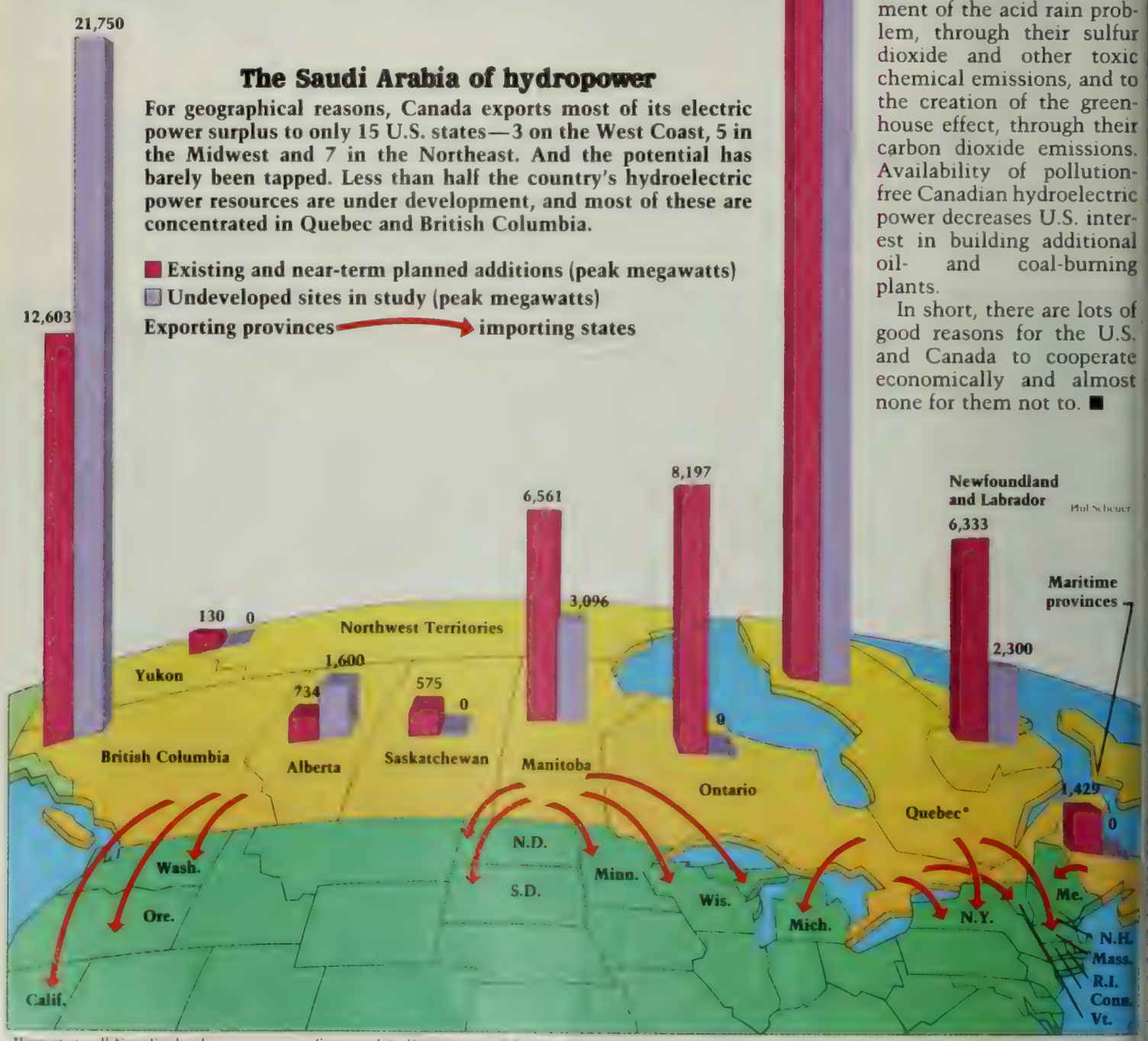
"It appears," Representative Rahall announced in opening hearings on the issue in March, "entire regions are trading their former dependence on OPEC oil for Canadian power exports." But that, of course, is political hyperbole, intended to disguise special-interest pleading. Canada is not OPEC.

It is true that hydroelectric development threatens some of Canada's remaining wildlife areas, but there is an environmental gain for Canada in shipping hydropower across the border. U.S. fossil fuel plants have contributed to the development of the acid rain problem, through their sulfur dioxide and other toxic chemical emissions, and to the creation of the greenhouse effect, through their carbon dioxide emissions. Availability of pollution-free Canadian hydroelectric power decreases U.S. interest in building additional oil- and coal-burning plants.

In short, there are lots of good reasons for the U.S. and Canada to cooperate economically and almost none for them not to. ■

The Saudi Arabia of hydropower

For geographical reasons, Canada exports most of its electric power surplus to only 15 U.S. states—3 on the West Coast, 5 in the Midwest and 7 in the Northeast. And the potential has barely been tapped. Less than half the country's hydroelectric power resources are under development, and most of these are concentrated in Quebec and British Columbia.



*Exports to all New England

Sources: U.S. Department of Energy, Edison Electric Institute, Northern States Power Co., Hydro Quebec, Ontario Hydro, British Columbia Hydro

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First Half, 1988	
Net Income	$107,540,000
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For more information, write the Investor Relations Department for our second quarter report.

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Thinking small, First of America of Kalamazoo has grown into a major—if little noticed—regional institution.

Think small, grow big

Steve Leonard

First of America Chairman Daniel Smith
Small-town banking, big-league profits.

By Jack Willoughby

TIRED OF READING about growth-crazed banks that come a cropper? Then take a look at First of America Inc. of Kalamazoo, Mich. You'll not find this $9 billion (assets) bank on anyone's troubled-lender list. Here's a bank that has racked up a remarkable 11% compound growth rate for earnings and 16% for assets year after year since 1972. Its return on assets, 0.97%, and return on equity, 15%, place it among the most profitable banks in the nation, according to a recent survey.

First of America's strategy: Buy plodding banks in slow-growing, often rural economies, then tone up their operations for the day when the local economy picks up

Says Chairman Daniel Smith, a 53-year-old native of Kalamazoo: "Basically, all we're doing is buying up banks and converting them into branches. The banks we like are the timid ones—community banks that lend out only half of their deposits and use the rest to buy bonds."

By doggedly targeting such institutions, First of America has grown since 1971 from a small cluster of offices around Kalamazoo to 45 community banks stretching from the Upper Peninsula into Illinois and Indiana. Its assets have increased more than tenfold in 18 years.

Small loans for small businesses in small towns is where First of America mines its gold. Loan officers at acquired banks are urged to get out and pound the pavement for customers instead of waiting for them to walk in the door. Thus, when auto manufacturers began pushing strongly into sales financing for buyers earlier in this decade, First of America was able to hold its own. Its local bankers were already cultivating contacts with local car dealers and so were well positioned to unfurl special dealer-incentive plans that included superfast approval of loan applications.

First of America thinks small—defiantly so. It will make no loan over $16 million, nor will it participate in any syndication that it does not originate and lead.

Headquarters for First of America is a three-story converted YWCA in Kalamazoo. But much autonomy resides with its loosely affiliated local banks, which are managed through an interlocking network of directors who sit on each other's boards. The company pays $2.2 million annually in directorship fees to some 400 local businessmen who sit on the boards of the affiliated banks. In return for the money, the directors oversee all aspects of local branch management, paying particular attention to the speedy turnaround of loan applications. A representative from Kalamazoo is on hand in each local bank to provide support from the head office.

Smith actively encourages his local bankers to scout lending opportunities in depressed regions that many banks would shun. Take Calumet Peninsula. The area has a high unemployment rate, and has subsisted largely on government transfer payments since the copper mines closed in the late 1960s. In 1972 First of America moved in and bought struggling Merchants & Miners Bank, and began a long, patient rebuilding effort. In the last five years the effort has paid off, and the local operation, with assets of $63 million, has seen its return jump from 0.53% on assets to 1.31%, according to Sheshunoff & Co. Says Walt Sauer, who's been running the local operation since 1977 and has built up a thriving lending business, "Some of the townsfolk really are wealthy, they just don't flaunt it."

For all its growth, First of America's over-the-counter shares are lagging the market for bank stocks. At a recent 47, it sold at only 7 times estimated 1988 earnings. This compares with 9½ times estimated 1988 earnings for Ohio-based Banc One. One possible reason is the large amount of goodwill Kalamazoo carries on its books, the product of years of acquiring companies at prices in excess of book value. Of stockholders' equity of $630 million, 16% is represented by goodwill. Complains Chairman Smith: "Investors will pay as much as 20 times earnings for an industrial company with a record like ours." Looks like another good example of market irrationality. ■

Nuclear energy, not foreign oil, is the best way to prevent electricity shortages

Electricity is so vital to our economy and our ay of life that a shortage electricity is unthinkable. t some parts of the untry are already periencing brownouts ring peak periods of mand. The question is t "Will we run out?" e question is "What ice will we have to pay?"

Our electricity demand will tgrow our present supply. It is ly a matter of time. Federal nners believe that our current nerating capacity may not be ough to supply our peak ctrical demand in the 1990s. America's electricity use has adily increased for the last 50 ars, and has grown over 45% ce the 1973 Arab oil embargo. is growing electricity demand already forcing us to turn to oil.

Imported oil: a dangerous fix

e longer we wait to build new al and nuclear plants, the more we will have to depend on oil. Using more oil plants would increase our foreign oil imports, worsen our trade deficit, and make America even more dangerously dependent on foreign countries for crucial energy.

More nuclear plants needed

Nuclear energy is already America's second largest source of electricity after coal. By reducing the use of foreign oil to make electricity, nuclear plants have saved America $105 billion in foreign oil payments since 1973. Nuclear plants have also helped cut consumer electric bills by over $60 billion.

Nuclear energy reduces America's dependence on foreign oil, not only at electric power plants, but wherever electricity replaces oil. It supplies a large part of the electricity that our economy needs to prosper.

If you'd like more information on making America more energy independent, write to the U.S. Council for Energy Awareness, P.O. Box 66103, Dept. SH09, Washington, D.C. 20035.

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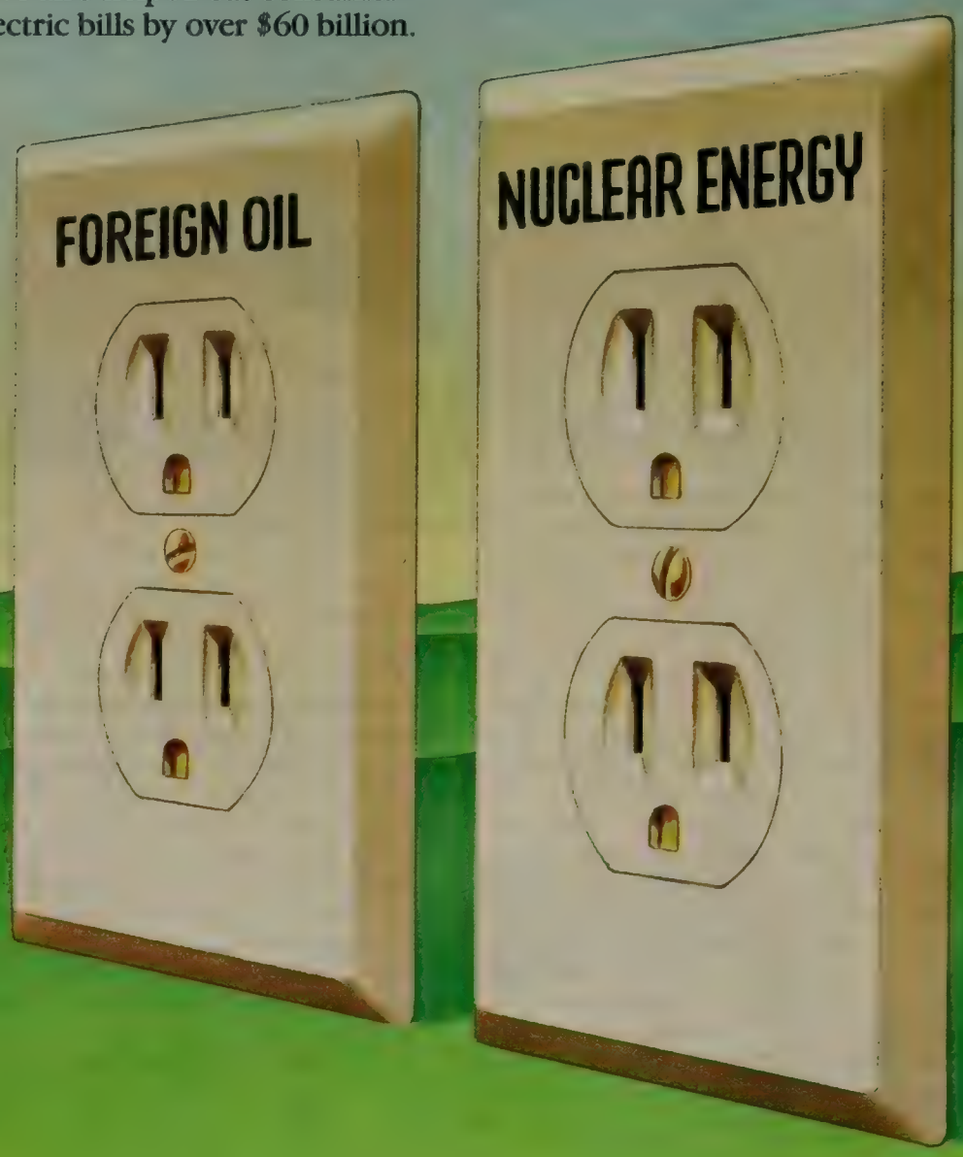

It's in a business where tonnage rates are lower than they were six years ago, yet Consolidated Freightways has grown rapidly and stayed nicely profitable.

Skillful driving

By Marc Beauchamp

If how well a company stands the test of adversity is the severest standard one can apply, then Consolidated Freightways, Inc. of Menlo Park, Calif. gets the highest marks. Even as rate wars have ravaged the trucking industry, Freightways has grown rapidly and remained profitable. Since 1982, revenues have grown more than 90%, to $2.3 billion last year, and profits were up 36%, to $75 million. To achieve those gains, Freightways had to double its tonnage shipped—average rates being lower than they were six years ago. Thanks to its revenue growth, Freightways achieved earnings gains even though net profit margins fell, to 3.3% from around 5%.

That's an impressive performance. Chairman Raymond O'Brien, 66, told shareholders this spring: "In less than a decade, 54% of the full-service common carriers have gone out of business."

Freightways remains the biggest and most profitable of the big three less-than-truckload companies. The others are Akron-based Roadway Services and Overland Park, Kans.-based Yellow Freight System. (Less-than-truckload, or LTL, shipments weigh less than 10,000 pounds.)

Every day Freightways' long-haul LTL freight subsidiary picks up almost 48,000 shipments—from Nike athletic shoes and GM auto parts to IBM computers and Hallmark cards—for delivery an average of 1,390 miles away. Its nearly 33,000 trucks, tractors and trailers move freight through 647 terminals and consolidation centers across the U.S. and Canada.

Despite its beer and axle grease image, trucking today is a high-speed, high-tech battle against temperamental machinery and tight deadlines. Semiconductors are as much a part of it as semi trailers. With his sharp suits and movie-star looks (and with 28 years in trucking), Chief Executive Lary Scott, 52, is the very image of the modern corporate manager.

Tom Zimberoff Gamma Liaison

Consolidated Freightways' Lary Scott
The stock has lagged.

One edge he has is that Freightways, founded in 1929, has long been a technology leader. In the last decade the company has put $200 million into computer systems, enabling it and its customers to track each shipment from pickup to delivery. Scott's strategy: Charge premium prices for such services. But the electronics also mean that his terminal managers can tell three days ahead how much freight is headed their way—vital information when scheduling Teamster drivers and dockworkers making $19 an hour (including benefits).

Foreseeing that deregulation would turn the industry on its head, Scott and O'Brien have headed Freightways down new roads. In 1981 the company sold its Freightliner truck manufacturing division to Daimler-Benz for $300 million. This money helped Freightways set up or buy four regional trucking companies to provide overnight service to customers in the West, Midwest, Northeast and South.

Scott's most daring diversification holds the most potential. In 1985 Freightways entered the air cargo business in an arrangement with Eastern Air Lines. Today it handles a million pounds of freight a night with a fleet of 16 jets, mostly DC-8s. Despite steep startup costs, CF AirFreight turned profitable last year.

Its secret? Donald Berger, CF AirFreight's president, keeps load factors high by literally chasing planes with trucks. A shipment from New York might be trucked to Indianapolis and then used to "cube out" a plane heading for San Diego. Berger is also winning customers for his premium-priced AM Service (delivery before noon the next day). Instead of chasing small packages, Berger stuck to big "ugly freight" (average weight, more than 175 pounds). Says he: "We're more comfortable with the back door and the loading dock."

Freightways continues to slog its profitable way through difficult times. Its net income rose 8% in the first half of this year, to $1.07 a share.

Is everybody happy? Not Lary Scott. Though Freightways has done well in a difficult industry, its stock has lagged. Trading at 33, the stock is no higher than it was two years ago. This makes it a tempting target for takeover artists: There is nothing the predatory breed likes more than a company doing better than the stock market appreciates. Several smaller trucking firms, most recently $732 million (revenues) Arkansas Best and $193 million Viking Freight, have been taken over by managements, competitors or railroads. Scott knows his company is attractive. It has about $8 a share in cash, an almost debt-free balance sheet and several promising businesses. Insiders control only 2% of the 37.5 million shares. "We've not been approached," says Scott. "But I'm sure someone has considered us."

Freightways is precisely the kind of company that doesn't need to be taken over. It would be hard to see how a different management could improve its performance. Whatever became of the old-time stockholder who would stick with a capable management through thick and thin? ■

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Edited by Jeffrey A. Trachtenberg

Brutal retail discounting has slashed profits of even the best-known consumer electronics makers. Their newest marketing response won't save them all.

The $4,300 TV

When Bob von Bremen, a 40-year-old salesman, decided to buy a new color television last year for his home in Randolph, N.J., he paid a local discounter only $150 for a bare-bones 13-inch Capehart made in Taiwan. "We were toying with buying a $700 set, but we never use all the gadgets," says von Bremen, who sells pressure valves for industrial machinery. "I liked the Capehart picture quality, and if the set breaks, I'll just throw it out and buy another one."

Value-minded customers like von Bremen and the profit-slashing retailers that cater to them have turned the consumer electronics industry upside down. Price-cutting is rampant, especially on low-end 13-inch and 19-inch color sets. Those, now mainly imported from Mexico, South Korea and Taiwan, account for 50% of the 20 million color televisions sold in the U.S. each year.

Jean François Allaux

One form of price-cutting, of course, is adding features without raising prices. Remote controls and stereo speakers, for example, are now all but standard equipment. Yet prices continue to drop, especially at the bargain end of the business. Stereos and TVs sell for less money today, in 1967 dollars, than they did 20 years ago.

Tired of losing money, Panasonic earlier this year shocked many in the industry when it stopped making its cheaper color TVs altogether, even though these sets were 30% of the company's unit volume here in 1987.

But while cutting back on the low end of the market, Panasonic is making a new push into the high-priced end. So are its competitors. This fall virtually every top TV maker will offer advanced-design, high-priced color TVs. They will be packed not only with useful, easy-to-understand features, such as sharper pictures, better sound and more versatile remote controls, but also more esoteric gadgetry such as multiple channel scanners, which enable viewers to see more than one channel at once.

To add a touch of class, most of these manufacturers will sell their high-end sets under entirely new labels. Panasonic's new line, for example, is called Prism, and it ranges from a 20-inch color set for $700, with on-screen control menus and a high-resolution screen, to $4,300 for a 51-inch projection model. Only 150 dealers will get the line, a marketing gimmick that Panasonic hopes will give cachet to its products. But stand back. By October Panasonic will be joined by the Optonica line from Sharp Corp., the Philips line from N.V. Philips and the Dimensia line from RCA. Hitachi is offering its high-tech, supersharp-picture HPX line. Zenith, the only major U.S. color TV manufacturer, has upgraded its sets made with Bose speakers.

Virtually all are targeted at well-heeled customers, able and willing to spend more than $1,000 for a 27-inch color set and as much as $4,300 for one with a 51-inch screen. Which sounds fine and promising. Except for a few serious problems. First, no more

than 25% of TVs now sold in the U.S. cost more than $500, and few believe the market is large enough to support even six major manufacturers.

Second, as it often has been, Sony was there first, closely followed by Mitsubishi and NEC. But Sony, with its golden brand name, made the biggest splash in 1985 as it watched its top of the line, sleek XBR line of televisions flying off the shelves at prices that ranged from $900 to $1,200. The XBR was one of the first with a noticeably sharper picture than lower-priced models, excellent stereo speakers, five separate tuning adjustments for picture, color, hue and brightness, plus jacks to plug in everything from a computer to a video recorder.

Belatedly, the rest of the pack is now trying to catch up. "Our new Dimensia line allows us to compete more directly with the niche players like Sony and Mitsubishi and NEC," says Joe Clayton, vice president of television for the Americas at Thomson S.A. (which owns the RCA TV business).

Philips is clearly launching the most ambitious upper-niche program. The Dutch manufacturer, which is highly regarded in Europe but little known to Americans, has been setting up an exclusive dealer network to carry its new high-priced Philips audiovisual line. Philips says it was encouraged by a recent marketing study, in which 20% of its customers said that they were willing to pay more for a better product with additional features. The company is now shipping its line, including 27-inch sets for around $750, 31-inch sets ($2,000) and projection televisions, which measure up to 52 inches and cost up to $4,000, to about 150 retailers. Stereo and TV hobby magazines will carry Philips advertising for the new products line, but there won't be any national TV advertising because distribution won't be wide enough to justify it.

The high-end marketers are encouraged by the fact that audiophiles spend thousands for stereo equipment. Says Mark Stephenson, director of marketing for color TVs at Philips, "We think many of the same customers who have paid big bucks for audio equipment will now buy video."

One other major hurdle: Successfully selling an advanced TV requires trained sales help, which is a virtually nonexistent commodity these days at discount and department stores. Many salesmen are unable to speak knowledgeably about the differences among TV sets and their various features. Incomprehensible techno-gibberish or slightly embarrassed ignorance are too often the responses. This is usually not true at better electronics retailers. This is one reason Philips, RCA and others are restricting the higher-priced lines to a small, carefully selected number of electronics stores.

Tip for consumers: Given the competitive nature of the business, chances are that consumers who want one of these fancy, newfangled TVs at a reasonable price can hang on for a while and then buy when the prices begin to slip.—**J.A.T.**

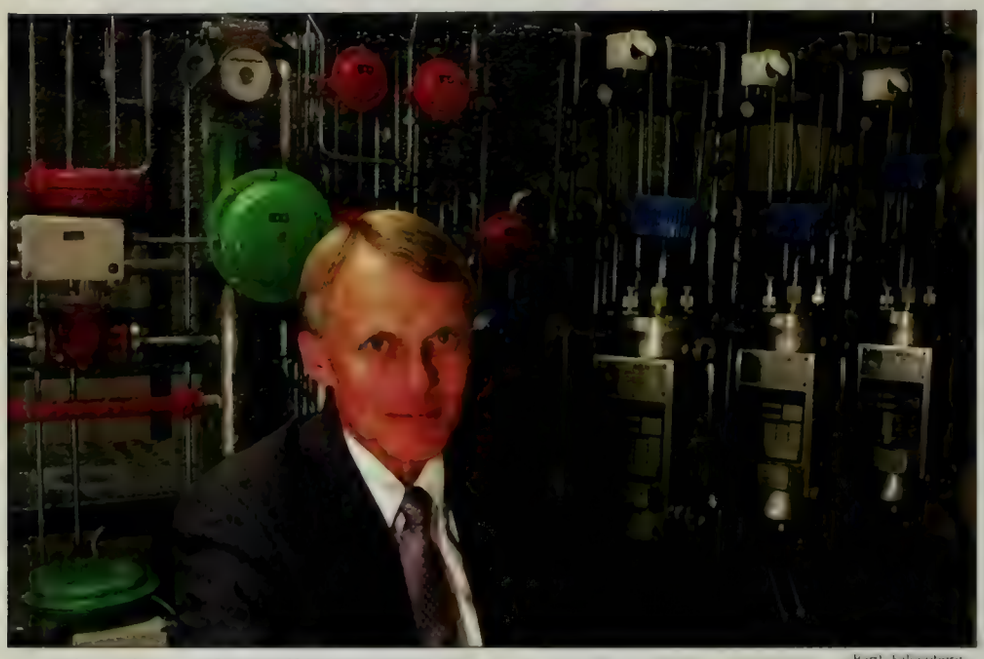
Ads for three new color TVs: Philips, Dimensia from RCA and Zenith
Sleeker, sharper, and some new brand names.

Science & Technology

Edited by Gary Slutsker

Battelle Memorial Institute isn't nearly as famous as the technologies it develops for its customers—xerography, for instance. That suits Battelle just fine.

Have lab, can travel



Barth Falkenberg

Douglas Olesen of Battelle Memorial Institute
Looking for the next Xerox.

When you grab a taxi in Columbus, Ohio and tell the driver, "Take me to Battelle," you're almost certain to get a perplexed stare. That's because everything from public parks to civic auditoriums and a city street is named Battelle.

Who's this chap who has his name on everything? It's the Battelle Memorial Institute, which in the 1940s developed a dry photographic reproduction process that it dubbed xerography. Battelle swapped the technology for stock and royalties from an Eastman Kodak spinoff called Haloid Co., which in 1961 became Xerox Corp. All told, Battelle's profits have amounted to $265 million. The institute, which is set up as a charitable trust, proceeded to spread the largesse around town.

The institute itself has proliferated into a $628 million research operation with 8,200 employees in laboratories from Seattle to Geneva and clients in 35 countries. Its clients: government accounts from the U.S. Department of Defense to the West German government, and companies ranging in size from multinationals like Ford and GM to small tool-and-die shops.

With U.S. industry in the grip of mergermania, Battelle's future looks brighter than ever. For one thing, corporate acquirers often cut back on in-house research and development and turn outside to independent contract research and development laboratories for new ideas. Such laboratories accounted for less than 2% of the $124 billion spent on research and development in the U.S. last year.

The institute opened in 1929, founded by Gordon Battelle, an introverted Columbus steel and mining magnate. Battelle Memorial is the oldest and largest of the nation's private, not-for-profit research institutions. (Others include SRI International, the Stanford University spinoff, and Southwest Research Institute of San Antonio.)

Battelle is also becoming more venturesome. Under its new chief executive, Douglas Olesen, it is not simply selling research but doing deals that include startups, licensing arrangements and every kind of cooperative research project imaginable in everything from PC software to biotechnology to metallurgy.

In 1986, for example, Battelle formed the Center for High-Speed Commercial Flight, to set up an international consortium of airframe and engine manufacturers, airlines, banks and government bodies. Its purpose: to develop the next generation of commercial supersonic aircraft. Battelle has no intention of building the planes but wants to lead a consortium of firms that will build them.

Battelle is also backing startup companies. Take Basis, a computer database program designed for use within Battelle back in the 1970s to store whole blocks of ordinary text, something most databases are not equipped to do. A few years ago the program's authors and other Battelle managers were permitted to form a subsidiary—Information Dimensions Inc.—in which they were given stock options and complete autonomy in running the company.

That company may not remain private for long; there is talk of an eventual public stock offering.

Another promising startup is Geosafe, a hazardous waste disposal outfit. Geosafe is a spinoff from Battelle's Pacific Northwest lab, which manages the Hanford, Wash. nuclear power and weapons laboratory for the U.S. Department of Energy. The Geosafe technology jolts soil contaminated by toxic waste with electricity, turning the area into a huge chunk of glass.

Last year Battelle showed an after-tax profit of $7 million on revenues of $628 million. Nearly all that profit came from investments and sales of real estate, not from research contracts. Olesen clearly hopes to build yet more investment income through startups, consortiums and licensing arrangements. He wants to make sure that his great national asset is able to remain self-supporting long into the future.—G.S.

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Personal Affairs

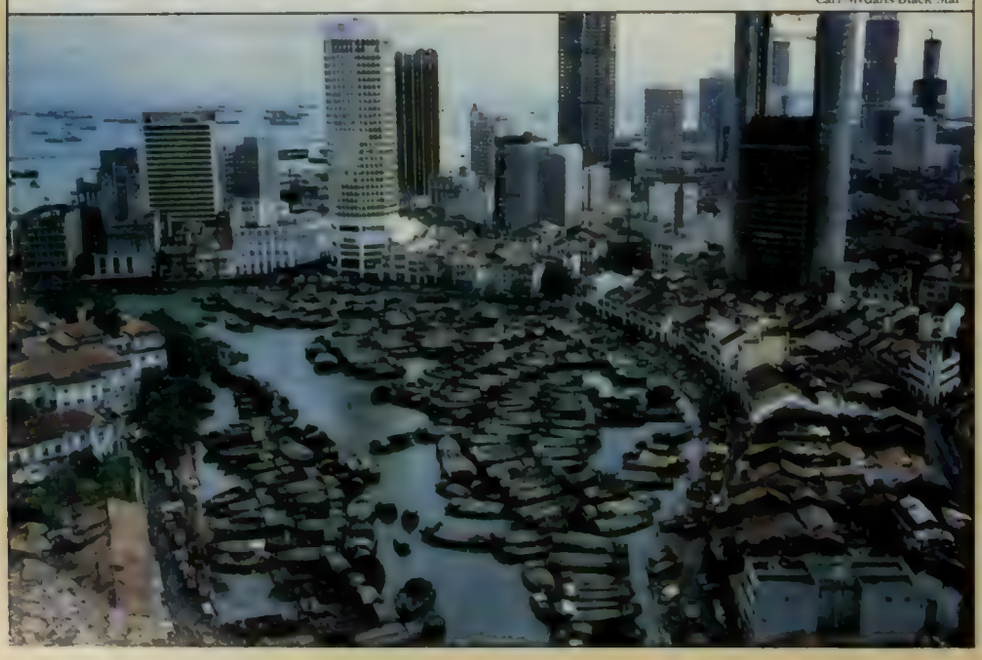
Edited by William G. Flanagan

Bright as a penny and almost as cheap, Singapore is a criminal's nightmare but a traveler's dream city.

Instant Asia

Singapore's skyline: bar chart of prosperity
A squeaky clean venue for bargain hunters.

Carl Mydans/Black Star



By Pranay Gupte

WHAT STRIKES YOU MOST about this safe, modern and efficient metropolis of 2.6 million is the strict enforcement of laws that are largely ignored in the rest of the world.

Anyone caught peddling drugs, for example, is hanged—as a Malaysian mother and son discovered recently.

Jaywalkers are fined on the spot; taxis pick up and discharge passengers only at specific points; spitting or littering on Singapore's mirror-sparkling streets warrants an instant $245 fine. Street crime is almost unheard of. Last month the Singapore Tourist Promotion Board flew back an Indian tourist to testify in a court case involving a pickpocket incident at a shopping arcade.

Tourists come basically for the shopping, while business travelers are generally here on banking, oil or trade affairs, or to attend conventions. Regardless of the purpose of their visit, all visitors get a bargain. Hotels? You will find all the big names: Hilton, Sheraton, Inter-Continental. There's the famous Raffles, of course, and the Shangri-La, Mandarin and Meridien are all to be recommended. A deluxe hotel room (with breakfast) starts at a negotiable $50 a night.

The city, 85 miles north of the equator, is a tropical dot only 355 square miles in size, and, despite its sanitized appearance, Singapore can be fun. In the shadow of its skyscrapers nestle bustling, picturesque ethnic neighborhoods (80% of the population is Chinese, the remainder a mix of Malays, Indians and Pakistanis). You'll understand quickly why the city is often called "Instant Asia."

If the steel-and-glass shopping complexes on Orchard Road don't yield bargains enough, there are tiny mom-and-pop stores that offer terrific buys. Oriental antiques and electronics are readily available at prices lower than in London and New York. Similarly, cameras and designer watches are sold at substantial discounts.

Besides shopping, there is terrific dining—or just plain eating—in over 1,000 Chinese, Malay, Indian, Indonesian and Western restaurants. A major attraction for gourmands can be Singapore's street markets and food stalls. In Newton Circus, for instance, or at the Rasa Singapura on Tanglin Road, you can sample everything from fried noodles to tongue-burning Indian curries to steamed chicken in ginger broth to chili crab to pork buns. Virtually 24 hours a day. Dishes start at less than $1. And do sample the durian fruit—even though your fingers will smell for hours afterward—and local mangoes, jackfruit and pineapples.

For business people or those who simply like to keep in touch with home, communications are a dream. You can direct-dial the world from almost any telephone (all local calls, except those made from public booths, are free), there is 24-hour telex service at major hotels and mail delivery is the best in the world.

Singapore's Changi Airport is palatial, with luxury lounges, smiling and efficient staff and—no surprise—superb shopping. The country's national carrier, Singapore Airlines, is a pleasure to fly, but there are many other excellent choices among the carriers serving the city, including our own United Air Lines.

For those inclined toward outdoor activities, there are walkways and bicycle paths. Jogging tracks can be found along the east coast. And for a change in scenery, Malaysia is only ten minutes by car, or by ferry across the Straits of Johore.

Today's prosperous Singapore of big buildings and big money is largely the creation of one man, Lee Kuan Yew,

vho's been the country's prime minster for almost three decades. Lee, ıead of the ruling People's Action Par-y, does not quite measure up to some J.S. ideas of how to run a democracy, ıut he is immensely popular with the 'oters. His prospering free-market :conomy has been tapped for formida-ıle sums for free education, health .are and housing programs. Perhaps nore than anywhere else in the devel-ıping world, women enjoy equal eco-ıomic status with men. Singapore's ıer capita income is almost $3,000. Only Japan's is higher in Asia.

The flip side of all this, of course, is that dissent has been stifled, and Lee's critics contend that he's established a one-party democracy. He's also immensely thin-skinned about criticism. Thus you'll have trouble finding the *Asian Wall Street Journal,* because its distribution has been curbed following some unflattering stories about Lee associates. Singapore is a democracy, but something of an authoritarian democracy.

Three years ago Singapore had high hopes of luring many of Hong Kong's big financiers—and their capital—to the city, as control of the British Crown Colony passes to China. This hasn't yet happened in a big way, but this city certainly has the infrastructure to handle it should the People's Republic make Hong Kong less attractive after 1997.

If you have business to do there, Singapore's a pleasant and rewarding place in which to do it. And if you're a tourist, it's a worthwhile stop on any Asian swing.

Hoarding art

Where do you put your art if you are an avid collector? Even Eli Broad, who lives in a sprawling, 13-oom house in Los Angeles and has a New York pied-à-terre overlooking Central Park, ran out of wall space for his 500-piece family art collection.

So on a morning when Broad (co-ounder of Kaufman & Broad, the $1.5 billion home-building and life insur-ance firm) visits Manhattan, you may ind him nipping across the Queens-borough Bridge, headed for a drab varehouse in Long Island City, N.Y. Though nothing to look at on the out-ide, the interior of the Judson Art Warehouse is crammed with more art han many museums house: Renoirs, Monets, Mirós, Schnabels and more—ncluding most of Broad's collection. n all, over 8,000 paintings, drawings, rints and sculptures are kept in the limate-controlled building (between 68 and 72 degrees Fahrenheit, with 45% to 55% humidity), says Tom Pel-ıam, Judson's director.

Not all art storage cli-nts have run short of vall space; some want to ave on insurance and ome just feel safer with heir stuff in storage. One f Judson's biggest new lients is a Californian. He chose New York be-ause it's farther from the an Andreas fault, making amage from earthquakes ess likely.

Whatever the motives, udson's clients include eal estate tycoons like Mort Zuckerman and mily Fisher (of Fisher rothers) Landau; interna-ional shipping bigwig Philip Niarchos; artists hemselves, such as Keith Haring and Robert Rauschenberg; opera diva Jessye Norman; and a host of other private collectors, from corporate raiders to tennis stars. Corporations and even museums use art warehouses.

It figures that fine arts storage is flourishing. Not only is the art market booming, contemporary artists are thinking larger. (Broad's warehouse collection, for example, includes a billboard-size painting by Anselm Kiefer—10 feet high by 22 feet long.)

Judson, one of the largest art warehouses, is typical of the top of the line. Most clients rent private vaults, equipped with heat, smoke and motion detectors. They range in size from 100 to 4,650 square feet, and cost an average $200 per 100 square feet per month. Insurance is extra.

Some vaults contain an estimated $15 million apiece—more than the value of the building itself.

Before renting space in a warehouse, make sure you inspect it personally. At one warehouse, FORBES inquired about climate control. "It's hot in the summer and cold in the winter," came the answer. At the same warehouse, a large Rodin was sitting unprotected in a central foyer—serving as a coatrack.

Make sure theft protection is taken seriously. A good warehouse never puts the word "art" on delivery trucks or crates, for example. And it will split large collections into three or four shipments to reduce risk.

Try to get a feel for the warehouse manager and staff. If they appreciate fine art themselves, chances are they'll take good care of yours. Judson Art Warehouse and Crozier Fine Arts are among the firms that hire mostly art history graduates and artists—even to sweep the floors.

Look for a warehouse with a viewing gallery. In this typically large, well-lit room, you will be able to hang pieces from your collection, to show dealers, buyers or friends.

One might well ask: What's the use of owning the stuff if you can't live with it? Shipping magnate Niarchos has the answer to that one: Before coming to New York, he often has certain pieces moved from storage to his apartment.

If hoarding fine art is your thing—or if you plan an extended trip and want your things safe in your absence—here are several companies that specialize in fine arts storage: in Los Angeles, Cookes Crating, Inc. (213-268-5101); in Oakland, Calif., Atthowe Fine Art Services, Inc. (415-654-6816); in New York City, Judson Art Warehouse, Inc. (718-937-5500) and Crozier Fine Arts, Inc. (212-741-2024).—**Dana Wechsler**

Theo Westenberger

Judson Art Warehouse Director Tom Pelham
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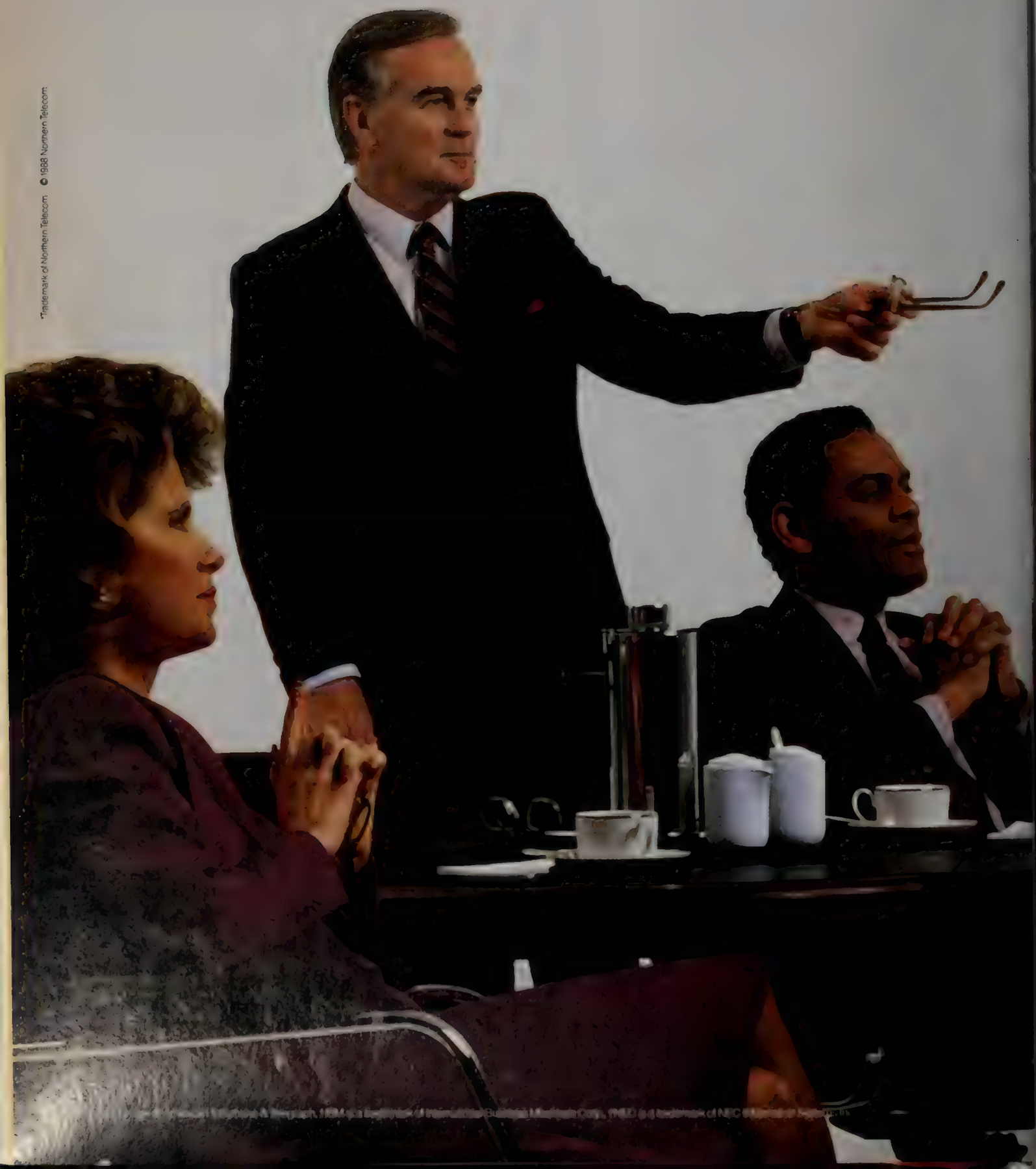

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Faces
Behind the Figures

Edited by Jerry Flint

Wonder boy

When Stanley Hiller was an adolescent, he built a $100,000-a-year business making toy racing cars. When he was 21, back in 1946, he developed his own helicopter. You can see one of those early Hillers in the National Air & Space Museum in Washington, D.C. When he was only 39, Hiller sold his helicopter company to Fairchild Industries for around $10 million—a lot of money in those days.

What's been happening to Hiller since? Today, at 63, Hiller calls himself a "corporate paramedic," investing his money in and operating on sick companies.

His most recent case was York International, an air conditioner maker. The stock was spun off from Borg-Warner two years ago. Hiller and his team came in, took a 20% stake, chopped costs, increased marketing and research spending, made acquisitions, almost doubled sales and put the company into the black. A month ago an investor group's bid of $57.50 a share, backed by a unit of Citicorp, was approved. Hiller's personal profit: $40 million.

His new case: Levolor Lorentzen Inc., the 77-year-old Parsippany, N.J. window-blind company that lost around $15 million last year on estimated revenues of $260 million. He and his group bought a 30% interest and Hiller has moved in as chairman.

Doesn't he find this boring after building helicopters? "It was a romantic time indeed," Stanley Hiller says. "But repairing these old companies whose products are essentially generic for their industry—this is war, too."—**Kerry Hannon**

Stanley Hiller, corporate paramedic
His copter's in the Air & Space Museum, but saving companies is war.

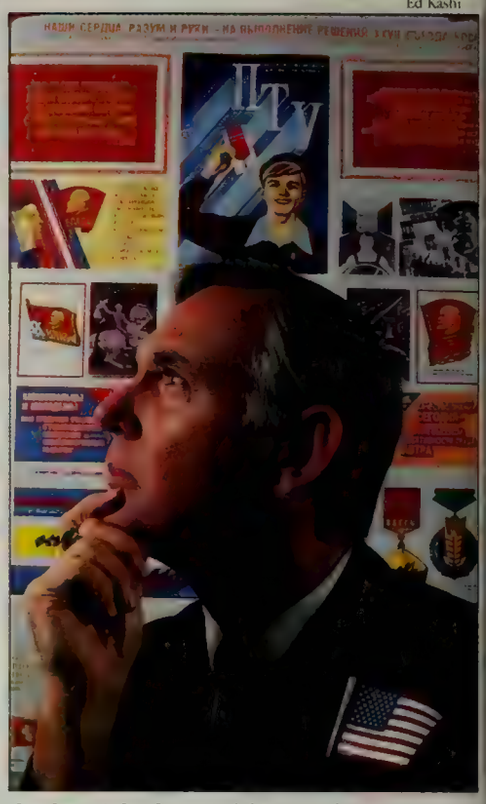
If every muzhik . . .

Just think. If everyone in the Soviet Union chugalugged 6 ounces of orange juice each morning, American lumber mills would be working 24 hours a day simply to keep Florida in shipping crates. That's the kind of dream that keeps American businessmen flying to the Soviet Union, especially in these days of Gorbymania.

Alas, dreaming is easier than dealing, as Wendell Williams, a California-based business consultant, has now discovered. His California firm deals with the problems of companies with less than $30 million in annual revenues. Intrigued by reports of private cooperatives in the Soviet Union, Williams this summer led the first-ever delegation of small business owners to visit their counterparts in the U.S.S.R., looking for business.

Wendell Williams, consultant
Big boys got the vodka and caviar.

Ed Kashi



"I hoped we might actually do some trade out of this first trip, which would be the first time any trade had occurred between small businesses in this country and small co-ops in that country," he says. No such luck. "All the really desirable products, like good vodka and furs and caviar, have already been sewed up by large American corporations," says Williams.

The private enterprise co-ops Williams has been meeting with have been publicized in the Western press, but, in fact, are very limited in the products they offer—and the quality they deliver. Fact is, glasnost or no, the Soviet economy is quite primitive. Still, a start has to be made somewhere. And Williams deserves credit for trying.—**Ronald Bailey**

Catheter king

David Sheridan is a throwback to an earlier age when a man without a formal education could tinker and invent his way to a fortune, as Edison or Ford did. With only a grade school education, Sheridan, now 80, became a major force in the development of the medical catheter—the

nventor David Sheridan
'I always figure that if it can be done, I can do it."

Gary Gold

ube pushed into the body to supply ir or fluids during operations.

A half-century ago catheters were and-braided with threads around a iano-wire mold. Sheridan helped hange that. He pioneered processes o make catheters from extruded plas- ic, cheaply enough to be disposable, which helps prevent infection. He has eld or shared over 50 patents.

"A lot of people think that if it isn't n the books, it can't be done," he ays, tapping his gray-haired temple with a urethral catheter. "When I didn't know it couldn't be done, I kept rying, and I did it."

Sheridan started working in his ather's flooring business when he was 8, filling nail holes and scraping nd shellacking floors. By 1939, when e was thoroughly sick of flooring, a riend's father, who worked in a medi- al supply company, predicted that he coming war would shut off the atheter supply from France. Sheri- dan, who had $35,000 saved, went nto the catheter business.

Since then, he has started three nore companies. He's gotten rich elling his firms, but usually quarrels with the new owners and starts out all ver again in his barn with new inven- ions. At 73 he started his latest, Sher- dan Catheter Corp., in Argyle, N.Y. His company employs 200 and does 10 million in business annually.

"I always figure that if it can be one, I can do it, and if I can't do it, it an't be done."—**Steven Flax**

Banque barker

Frank Perdue sold his chickens on television and Lee Iacocca his cars. In France, Marc Viénot uses the tube to sell his bank. Viénot, 59, is chairman of Société Générale, France's fourth-largest bank (assets, $132 billion), and it needs some salesmanship. Société Générale was privatized in mid-1987 after 42 years of state ownership.

Action shots of Viénot in annual meetings and press interviews are a far cry from Madison Avenue. But Viénot is seeking to press an edge that politics has handed him. His bigger rivals remain in government hands, and chances are they will stay that way because France's champion of privatization, conservative Jacques Chirac, lost his job as prime minister after recent elections. Having escaped from the bureaucracy in the nick of time, Viénot's bank is determined to press its advantage.

Société Générale's areas of specialization—leasing, mortgage finance and consumer credit—are healthy. There's also an extensive branch network that sells mutual funds and life insurance, while the Third World debt exposure is less than 1% in any single country.

Viénot isn't too excited about Europe's expected revolution in 1992, when the Common Market will dismantle remaining trade barriers. "History has taught us to be cautious," he says. But neither does he think that the Socialist electoral victory marks a turning away by France from a market economy. "Deregulation will go on," he says. "It can't be reversed."—**Ralph King Jr.**

Jill Hartley

Marc Viénot, Société Générale chairman
Pressing an edge politics handed him.

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Cleopatra
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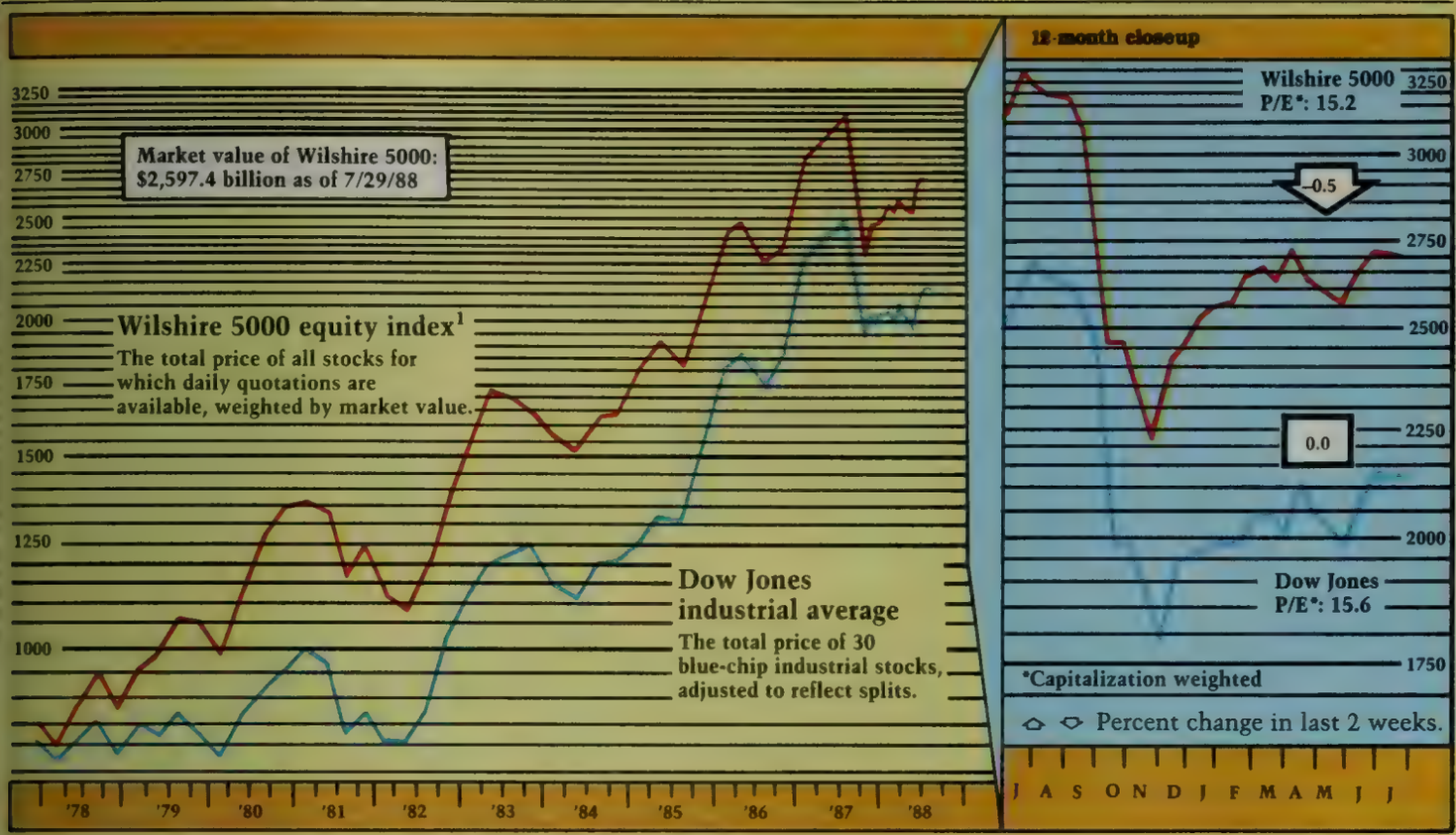


Bear market rally? A 75-point two-day upswing enabled the Dow to close unchanged for the last two weeks of July. But this has all the makings of a typical bear market rally. For starters, the action was limited to blue-chip stocks. During the last five trading days the Dow gained 3.3% while the Amex and Nasdaq were flat. Last week on the Amex more stocks made new 52-week lows than highs (30 to 24). When the Dow rallied 46 points on July 29 only 192 million shares were traded on the NYSE. Of this volume, over 10% was in dividend capture plays.

On the bright side, corporate America continues to report healthy earnings. The Dow multiple of 10.8 is only slightly higher than its five-year low of 10.3 reached in December 1984. That makes the earnings yield (the inverse of the P/E) on the Dow 9.3%. In August of 1987 the earnings yield was only 4.5%. Although earnings a year ago were distorted downward by some one-time writeoffs, the market is certainly a lot less expensive.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–0.6	–0.1	–0.1	–0.2	–0.9	–1.9
in last 52 weeks	–13.8	–14.5	–17.2	–14.2	–14.5	–10.9

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 23	under 9	over 4.7%	none	high	low	over $35	under $4
in last 4 weeks	–1.3	1.6	1.5	1.4	–1.5	0.9	1.2	1.8	0.5	0.1	–1.1	1.1
in last 52 weeks	–9.6	16.2	18.2	4.3	–5.7	–0.1	0.9	20.5	16.6	2.5	–5.3	10.2

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

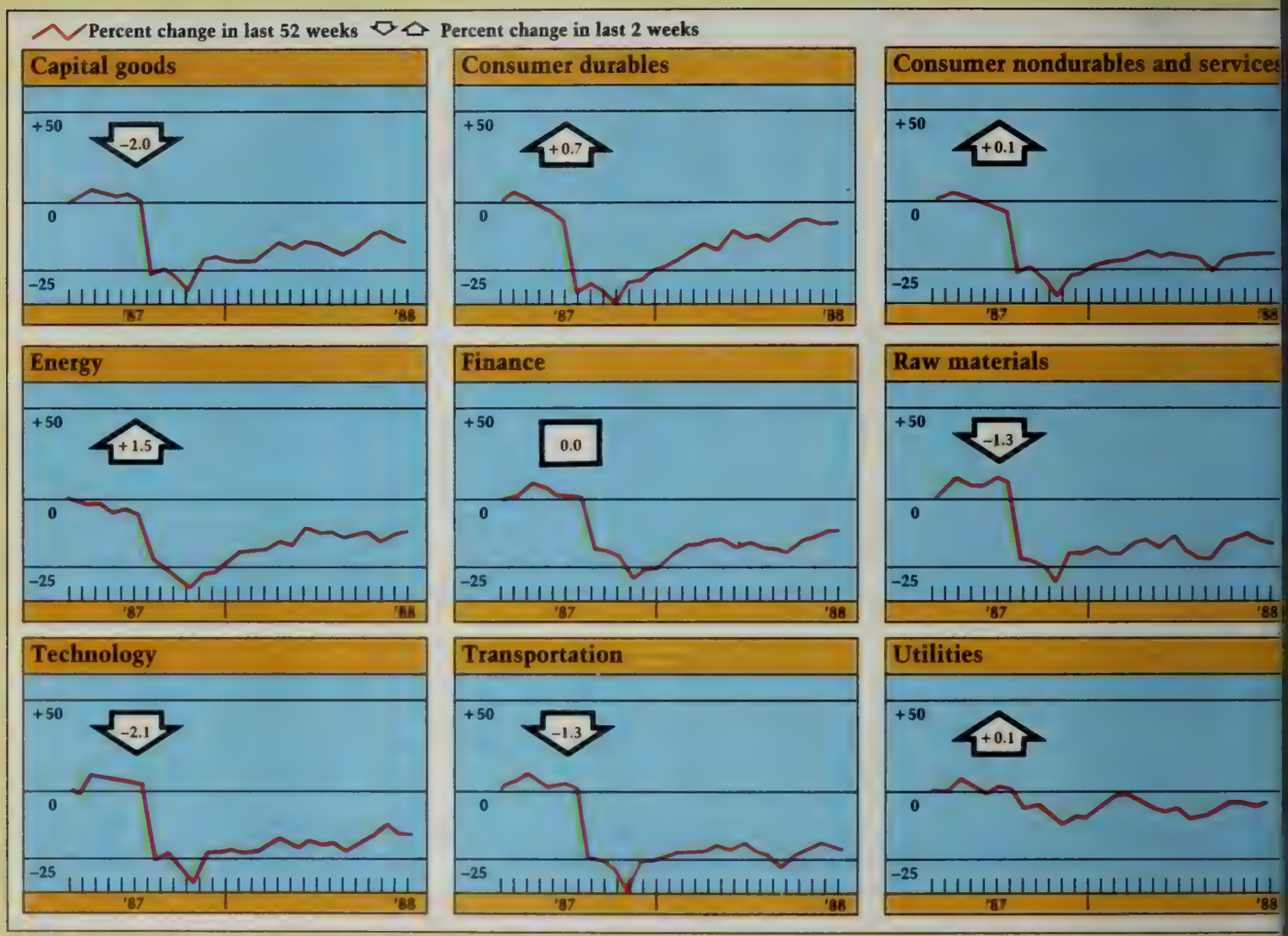
Note: All data for periods ending 7/29/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Energy stocks respond to favorable earnings reports. The energy sector posted the strongest two-week performance. The best stock in the group was Phillips Petroleum, up 10%, to 17⅝. The company reported earnings of $1.27 for the six months ended June 30, versus a deficit in 1987, and also increased its quarterly dividend from 15 cents to 18 cents, which makes its yield 4.1%.

In contrast, technology stocks have been hurt by disappointing earnings reports. It is painfully reminiscent of last summer, when the retail and apparel stocks dropped before the rest of the market collapsed. In the last two weeks Seagate dropped $6.50, to 11⅛, on lower than expected earnings, while Tandem, Data General, Lotus Development and Autodesk all declined more than 10%.



What the Analysts Think

Finance is weak. Analysts again lowered their 1988 earnings estimates for the finance sector. With its estimated 1988 P/E of 8.5, finance has the lowest sector multiple. But there may be some positive earnings surprises. For example, following a second-quarter rebound, analysts raised their 1988 estimate for First Boston by 6%.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.77	14.0
1988 estimates	3.55	10.9
1989 estimates	3.93	9.8

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Raw materials	$3.07	10.3	1.26%	1.93%
2	Capital goods	2.62	15.3	1.13	1.39
3	Consumer durables	4.45	12.6	0.80	0.96
4	Utilities	2.40	10.0	0.14	0.20
5	Energy	3.07	12.6	–0.02	–0.17
6	Technology	2.88	12.1	–0.06	–0.14
7	Transportation	2.43	11.2	–0.36	–0.69
8	Consumer nondurables	2.47	13.3	–0.53	–0.76
9	Finance	3.36	8.5	–0.89	–1.89

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Broker Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 7/29/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

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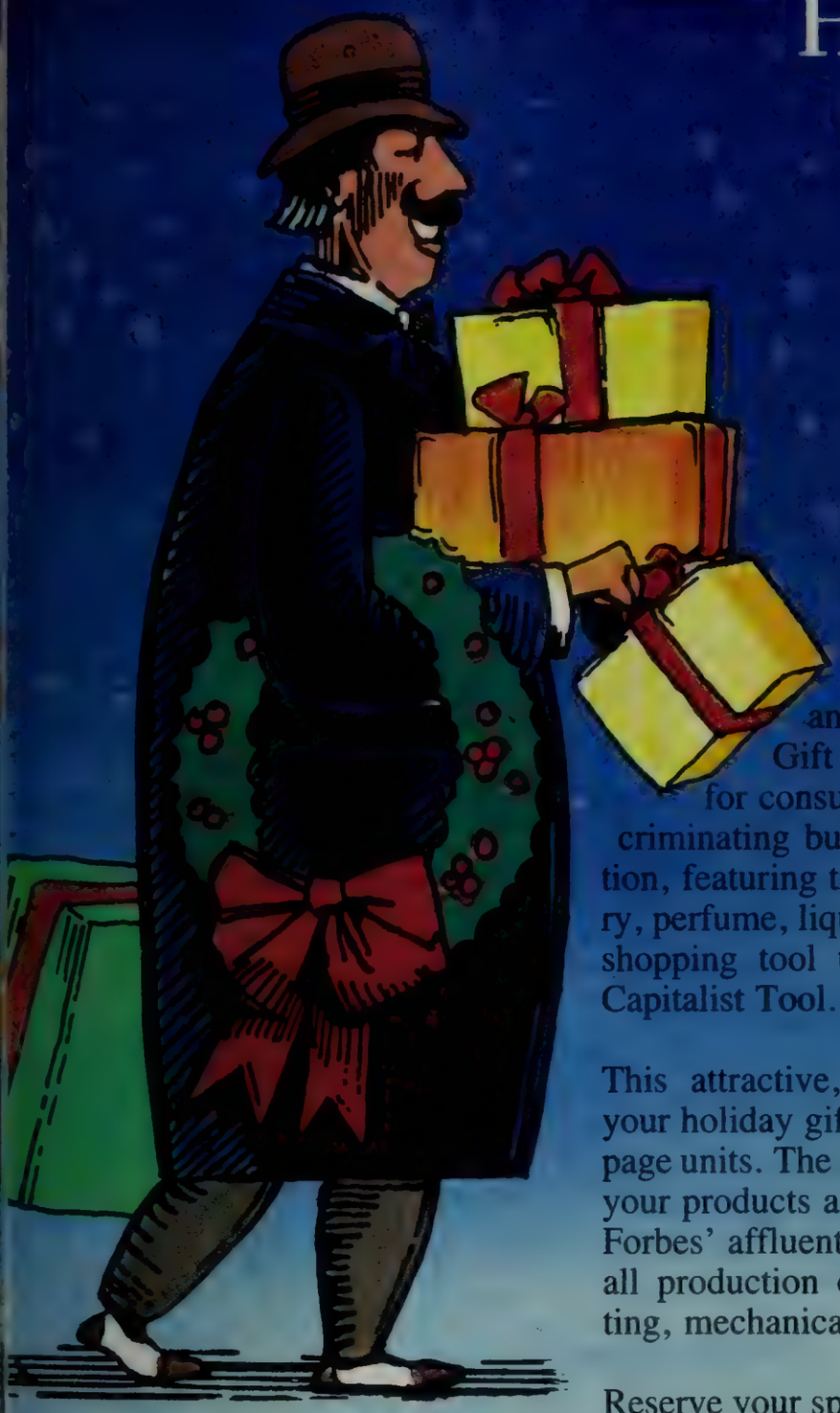

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If you think old blood always gets thin with the passing generations, then you haven't met John and Oliver Grace.

Some call it piracy

By Kathleen Healy

SEVENTY-EIGHT-YEAR-OLD Oliver Grace, a gentleman of the old school, is the retired chairman of the blue-blood brokerage firm Sterling, Grace & Co. His sons, John and Oliver, make no pretensions to gentility. Says John: "The British call us bloodsuckers."

Oliver and John are raiders—and no apologies. They raid closed-end funds whose shares sell at a big discount to net asset value, and make a quick buck either by driving up the stock price and then selling out, or by forcing the fund to become open-ended. Once the fund adopts open-end status, its shares sell at net asset value, which gives a nifty profit to people like Oliver and John who had earlier bought the shares at a discount.

Operating through an assortment of limited partnerships, the Graces and a handful of their upper-crust friends have open-ended several closed-end funds, making millions in the process. A lot of closed-end-fund people are outraged. "I ask myself, what value do these people have to society?" complains Lilia Clemente, whose Clemente Global Growth Fund became the latest Grace target, in July. In a typical play, the Graces and their partners bought 14% of Clemente Global (average price $6.72), a one-year-old $50 million fund that has invested heavily in Asian startup companies, and then announced they may demand seats on the board. What made Clemente vulnerable to a coup de Grace? The 25% discount to net asset value at which its shares were trading on the New York Stock Exchange earlier this year.

In Britain, where until recently such things just weren't done, the Graces are called even worse names than they are in New York. "If everyone behaved in the market that way there'd be pandemonium," says a solicitor with Edinburgh Fund Managers, recently the victim of a Grace-engineered hit-and-run attack on the Crescent Japan Investment Trust.

Such criticism smacks not a little of arrant hypocrisy. It seems to bother the fund managers little that their small stockholders must sit with shares that sell for less than asset value. But small stockholders can't do anything except sell. The Graces, Oliver, 34, and John, 30, have something going for them: connections to serious money. The money means the Graces don't have to wait patiently for a discount to shrink. They can make it shrink.

Sometimes the Graces sell out early, but if they hang in until a fund goes open-end, all shareholders benefit. Already the Grace buying has lopped half the discount off the Clemente Fund. A raid on the $700 million Japan Fund last year persuaded the managers of that fund to open-end it. The $200 million Crescent Japan trust succumbed in June. The Graces and their friends made over $20 million on those two investments.

Fund managers can fight back. Six days after the Graces announced their stake in Lilia Clemente's fund, she unveiled a stock buyback program to prop up the price. At the cost of losing some of her asset base, she hopes to lower the risk of being forced to open-end the fund, meet a lot of redemptions and unload illiquid stocks at distress prices.

Polite, the Graces aren't. Profit-making, they are. They claim that last year their two principal partnerships, Sterling Grace Capital Management and Anglo American Securities, had returns of 51% and 53%. The two brothers have attracted more than $200 million to their seven partnerships. It strengthens their hand, of course, for the manager of the target fund to know they have a lot of buying power behind them.

It takes money to do these things. Some startup capital came from the senior Oliver Grace, who is himself well connected. Up the road from his home in Oyster Bay, N.Y. is his second cousin, J. Peter Grace, chairman of W.R. Grace & Co. and the grandson of William R. Grace, the wealthy entrepreneur and mayor of New York. Oliver senior's father, Morgan Grace, made his fortune from a chemical cartel.

Oliver senior has good moneymaking instincts, too. He made a bundle buying Japanese government bonds toward the

Nina Barnett

John and Oliver Grace
Bloodsuckers?

end of World War II for under 10 cents on the dollar (they were redeemed at face value and accrued interest shortly after the war ended). In 1963 he discovered Japanese stocks when the Nikkei average was at 1,225 (versus a recent 27,700). Little John and Ollie received shares of Sumitomo Fire & Marine in their Christmas stockings.

So who says that second- and third-generation wealth always goes soft? Among the backers of John and Oliver's fund-raiding have been members of the Merrill family (as in Merrill Lynch), the Watson family (as in IBM), and various social friends—from Manhattan's Buckley School or from Georgetown and Vanderbilt universities. Also participating in some of the raids has been Thomas B. Pickens III, son of T. Boone. The Grace boys met the elder Pickens at a Republican fundraiser that was held in Washington, D.C.

Does Oliver Grace the elder disapprove of his offspring's rough investment tactics? Not at all. "I tend to hold on to investments longer," he says. "But I think [what they are doing] is part of the world today." ■

The Money Men

Ken Smilen correctly predicted that the Reagan economic policies would cause a major bull market in the 1980s. What does he think will happen now?

Guillotine, anyone?

By Peter Brimelow

KENNETH B. SMILEN of New York's Smilen Investment Research & Management Inc. last appeared in FORBES in December 1981. At the time, pessimism was all-pervasive. But Smilen predicted "a major bull market ahead in both stocks and bonds" on the strength of the Reagan Administration's tax reforms, which he described as epochal legislation like the Homestead Act or the creation of the Federal Reserve.

So what's Smilen done lately? He has just issued a major report whimsically entitled *The Enforcement of the Gramm-Rudman-Hollings Act by the Steel Manacles of World Markets, or, The New Phase in Financial Discontinuities.*

"Discontinuities" warns of rough financial times ahead. The Reagan revolution, Smilen explains, has reached its "Thermidor"—the month when Robespierre was executed and the French Revolution seemed, briefly, about to stall. We asked Smilen about this.

Smilen: The next important move in the capital markets will be disarray, with a rise of interest rates and inflation rates and a falling of stock markets. A tax increase would just raise interest rates even more. This crisis will cause government policies to change significantly. One way or another, Congress has to cut spending.

Eddie Keating

Ken Smilen
Profitless prosperity ahead.

FORBES: You have said that for the U.S. the world markets are providing the budget discipline that Gramm-Rudman-Hollings was supposed to supply, and that in other countries is often provided by the International Monetary Fund. Why is this happening now and not in the 1970s?

Two reasons: First, we have exhausted a great deal of the liquidity on the world markets. If the Japanese were to continue to save, things could be postponed, but we are pressing them to consume in order to cut their trade surplus. Second, confidence in the U.S. was very, very great, but at some point you reach a tipping point. The crash last October was a shot across the bow, a warning that the demand for capital on the part of governments is still too great.

But the U.S. deficit is actually falling as a share of gross national product, isn't it?
As a share of GNP, but I don't think it has fallen in relation to the amount of savings available to buy it. And if you combine that with what I think is a profitless prosperity, then the ability of our economy to generate earnings relative to industrial activity has been diminishing.

What's a "profitless prosperity"?
I think the 1950s were such a period. Employment will be up, unit volume good, but because of the pressure of imports and because of international competition, profits will be down. You can see this in different ways. For example, the Producer Price Index—that's finished goods relative to intermediate goods—is sharply down, which means prices can't be raised. What we will see is the paradox of economic activity at a good level with the system not able to generate the earnings to encourage expansion.

How long could this go on?
The real issue will be faced when interest rates rise to some point that is intolerable. It's difficult to say what that point is. In 1971 we had price and wage controls when inflation reached 4%. I believe we are months away now [from a painful peak in interest rates]. I think we could get an interest rate explosion in six to nine months.

What are your specific investment conclusions?
Remain liquid but in readiness. Once there is a belief that the U.S. will be less of a consumer of capital, that Congress is on the right path, the U.S. markets will be the place to be. ■

Insurance at the Crossroads

An update on the issues and events confronting insurance and employee benefits.

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Bondholders are up in arms over takeovers that dilute the quality of their holdings. "Poison puts" offer some protection, but there are puts and puts.

ONE MAN'S POISON

By Ben Weberman

Bond issuers are moving rapidly to pacify investors worried about the credit deterioration that often results from highly leveraged takeovers. They're putting "poison put" covenants in their bond issues that supposedly protect bondholders from a downgrading occasioned by a merger or leveraged buyout. The idea is good. The execution, however, is sometimes bad. Some of these antitakeover bond provisions do more to entrench managers than to protect bondholders.

The risk of takeover-related credit deterioration has greatly increased since junk bonds have come into favor. You buy the bond of a blue-chip company, an Atchison, Topeka & Santa Fe, a United States Gypsum or a Federated Department Stores. The company is recapitalized, restructured and renamed, and now you have a much shakier piece of paper backed by a highly leveraged Santa Fe Southern Pacific, or a shrinking USG Corp. or a broken-up Federated. A Federated, for example, now bereft of many of its prime assets, like Filene's and I. Magnin. From the bondholder's viewpoint, it's as if you lent somebody money on the collateral of his house, and he sells the house and substitutes the garage as collateral.

Investors are getting fed up with this shell game.

Investors can't predict these degradations, and some have reacted by simply staying away from the corporate bond market. Others have switched to collateralized securities backed by, say, a portfolio of car loans, collateral that will presumably hold its value no matter what the fate of the bond issuer. But these complicated securities often lack the marketability of plain bonds.

Since June, however, a flood of issues has come along with "poison put" features that offer investors a measure of protection against overleveraging of the bond issuer. Examples: the Freeport-McMoRan 8¾s of 2013, the United Air Lines 12½s of 1995 and 13s of 1998, the McDermott 12¼s of 1998 and the Cummins Engine zeros of 2005.

What can a poison put do for you? It generally offers an investor the right to turn the bonds back to the company at a specified price of 100 or 101 if there is a change in management control. Sometimes the bond indenture also states that the bond becomes redeemable if the issue's credit rating is lowered as a result of a takeover.

How good are the poison pills? That depends. The poison put may be worthless when the takeover threatens. If a high-coupon, high-grade bond was trading at 120 and falls to 103 in a takeover-related downgrading, it is scant consolation to the holder to be given the right to hand the bond in at 102.

An even less venomous poison put is one activated only in the event of an unfriendly takeover—unfriendly to managers, that is. Consider two recent subordinated note offerings from United Air Lines totaling $500 million. In the event of a change in control of United, holders can put them back to the company at 101. The right to put, however, does not apply if there is a friendly change of control. This kind of put seems designed more to protect management than to protect bondholders. If a hostile acquirer—say the pilots' union—wants the company, the union will have to refinance the bonds, a move that could be very costly. But a friendly deal—one with some kind of payoff for the managers—could proceed even if it hurts bondholders.

The put option in the United notes also kicks in if the debt is downgraded by Moody's and Standard & Poor's as a result of a takeover. This raises the curious possibility of a self-negating prophecy. Might the rating agencies, anticipating the triggering of a put provision by which holders would soon get their cash back, be reluctant to downgrade? In which case the put would not be triggered, the holders wouldn't get their cash back, and the bonds would be due for a downgrading. A logical black hole.

Far better terms are available on one of two June issues from McDermott Inc., the producer of power generating systems and offshore drilling platforms. The 12¼s of 1998 protect holders by limiting the amount of new borrowing—whether debt put on by an acquirer or by management itself in a leveraged buyout.

Less useful to the investor is the kind of poison put offered by UGTC Capital Corp.—an offspring of Uniroyal Goodrich Tire Co. controlled by buyout financiers Clayton & Dubilier. Redemption of the 14⅛s of 1998 is at the option of management, not the bondholder, in the event of a change in control. Kind of a poison call. The good part of the bond indenture is a restriction on additional debt that management cannot easily override.

Don't buy a poison put bond without first finding out who can put what to whom. Then ask yourself whether you are giving up so much yield to get this put that the corporate issue is no longer competitive with a rock-solid U.S. Treasury security. A put, after all, isn't worth anything if the issuer goes broke. ■

Ben Weberman is a contributing editor of FORBES *magazine.*

The small investor doesn't have a chance? Nonsense. If the pros are so smart, how come so few of them beat the averages?

TRADE SECRETS

By David Dreman

Time and again I hear that the little guy doesn't have a chance in today's market, pitted against the institutional behemoths with multi-million-dollar research budgets. That's nonsense.

Fact is that the large institutional investors have underperformed the market for decades. With the finest research money can buy, almost daily contact with "All Star" analysts and input from top economists and market strategists, their results are lackluster.

So where's the big edge? The average investor can get all the information he needs to make good investment decisions by drawing on a variety of sources that are inexpensive—and sometimes even free. Here is a short working list:

1. The *Value Line Investment Survey* provides detailed information on 1,700 of the largest companies traded in the U.S. markets, as well as thorough industry reviews. The analysis and commentary on each company is updated quarterly, and detailed statistical information going back 15 years and current estimates are presented in an easily readable format. A number of important financial ratios are also provided, as well as useful value screens. This first-rate source published weekly is available through subscription or can be found in some large libraries.

2. Standard & Poor's also provides detailed company information sheets. They are updated frequently for all the companies listed on the NYSE, the Amex and the larger companies traded over-the-counter. The service can be subscribed to and is also found in some libraries. If you are interested in a few companies, your broker probably can supply you with copies of these reports.

3. A quick reference source that gives some important data to help decide whether to pursue a stock further is the S&P *Stock Guide*. Published monthly, this small booklet provides information on every stock on the NYSE, the Amex and most o-t-c issues. Sometimes given on request to clients by their brokers.

4. If you want more detailed facts on a specific company or companies, write to the corporate treasurer's office (the address is available in both the Value Line and S&P sheets) and ask for recent annual and quarterly reports and to be put on the shareholders' mailing list. Companies are happy to make this information available to potential stockholders. But don't overdo it; you can easily wind up with a paper disposal problem of major proportions.

5. For the minicomputer jock there are a number of sources available at reasonable rates. Value Line has computerized much of the information on the 1,700 stocks it follows, and sells the disk to individual investors. Off-the-shelf information updated frequently is also available from a number of other vendors, such as Compustat and Disclosure. Many of these stock packages are advertised in the *Wall Street Computer Review*.

6. A more costly but very detailed source of information is the *Wall Street Transcript*, published weekly. The *Transcript* reprints literally hundreds of brokerage reports, major company presentations to financial analysts and also conducts detailed industry and market strategy forums by well-regarded Street names. It also has a very useful index by company, industry and subject that dates back one year. Also available at some brokerage houses and libraries.

7. A brokerage house with a good research department can provide information on some of the companies in which you are interested. I would advise breaking the research down into two sections: the analysis and the conclusion. The analysis is often thorough and helpful; the conclusion, which tends to follow current popular thinking, is less so.

It's not hard to get good information using the sources that I have mentioned. You'll have to work at it, but you will end up with information as good as that available to the pros.

Here are three stocks I have chosen using these sources:

James River (25) is a major supplier of consumer paper products. Earnings were up 16% last year and should be up between 15% and 20% this year. The company is a net buyer of raw material, so if pulp and paper prices fall, margins will increase. The stock trades at a P/E of 10, yielding 2%.

Philip Morris (91) is a first-rate consumer products company whose earnings should hold up much better than the cyclicals when a recession finally comes. Earnings have grown at a better than 20% clip in the past five years and should increase by over 25% in 1988. P/E, 10; yield, 3.9%.

RJR Nabisco (51) is a third major consumer products company with almost two-thirds of its revenues and half of profits coming from food lines, with the remainder from cigarettes. The company has had a rapid rate of earnings growth in recent years, which is likely to continue in the next several years at a minimum. P/E, 9; yield, 4.3%. ■

David Dreman is managing director of Dreman Value Management Inc. Investment Counsel, New York, and author of The New Contrarian Investment Strategy

The stock market is a lot lower than a year ago—and the economy is a lot better. How to explain the divergence?

SAME TIME LAST YEAR

By Ann C. Brown

Last August our telephone lines were hotter than Tom Wolfe's *The Bonfire of the Vanities.* Every would-be "master of the universe" on Wall Street was calling with a must-buy situation. More stock market ideas were bounced off my pearl earrings in the summer of Eighty-seven than during the entire decade of the Seventies. The Dow Jones industrial average was registering 100-point weekly gains on the richer scale. And the rare dog days were wearing diamond-studded collars.

This August our telephone lines are colder than James Michener's *Alaska.* Most of the calls that do come in tend to tout the new money games—commodity trading, currency speculation, limited partnerships in pre-Columbian and post-Impressionist art—everything but equities. The DJI has been stuck between 2060 and 2140 for weeks, and there are enough dog days to underwrite a kennel.

All of which goes to show just how emotional and psychological the stock market can be. The economic facts and figures are better today than they were a year ago. Unemployment is lower, industrial capacity utilization is higher, the balance of trade is improving, the budget deficit is narrowing, corporate profits are strong for the most part, and inflation has managed to stay within an acceptable range.

Then why isn't the stock market livelier and why aren't prices higher? One obvious reason is October's crash. The swiftness and the magnitude was an anything-but-gentle reminder to this generation of the fragile underpinnings of equity ownership. That what might have been an ordinary correction was made three times worse a hundred times faster because of new trading techniques, and the concentration of capital in relatively few hands matters little to the still stunned and shaken investor. Especially since nothing of any consequence has been done to prevent a similar situation from happening again.

This lack of confidence in the market's trading mechanisms is compounded by a lack of confidence in the future of the economy because of the upcoming change in Administrations. In terms of continuous prosperity, the economic expansion is as old as Mr. Reagan, and many investors (particularly those overseas) fear that his departure will signal the beginning of a recession. While I doubt this will be the case, since there is already enough momentum in the system to keep the GNP growing for the next several quarters, it is understandable why investors will likely err on the side of caution over the near term.

Mr. Dukakis is even more unknown in Toyko and Bonn than he is in Tacoma and Butte, and his sweeping promises of increased social welfare programs could result in either higher taxes or a larger deficit—or both—which would not be good for the stock market. Mr. Bush, should he be elected, may be unable to stop an almost certain to be Democrat controlled Congress from enacting the proposed Democratic spending programs. Even President Reagan, with his overwhelming electoral victory and his considerable personal popularity, is scrambling of late to keep his veto from being overridden.

With investors' attention occupied with politics, and with the tenth month of the year coming up to remind the superstitious and the merely wary of the October hex on stock ownership, it is unlikely that the market will soar to new highs anytime soon. However, with bonds perhaps a less attractive investment at the moment, selected stocks offer opportunities for gains—particularly several big-capitalization issues where changing circumstances have recently improved outlooks.

GTE Corp. (39) is one such company. Recently the corporation announced an agreement to sell its remaining 50% ownership in the Sprint long-distance telephone network to United Telecommunications, which will remove a drag on GTE's profits. Furthermore, the rate reduction recommendation for California, which should be made final this month, came in toward the lower end of most estimates, which should eliminate investor fears and hesitancy to buy the stock. For 1988, GTE could earn $3.55 to $3.65 per share. Next year, $4.15 to $4.25 looks possible. The company is paying a hefty dividend (6.5%), which could help boost the total return potential to around 20%.

Quaker Oats (44) is down because of all the talk about the drought and what it could do to grain prices. Like most worries, this one probably has been overdone, and the company's grain hedging positions should see to it that costs are only minimally affected. OAT's noncereal businesses are strong, too, and the company could show earnings per share of $4 for fiscal 1989.

Georgia-Pacific (37) could earn between $4.75 and $5 per share this year and close to $5.50 to $5.75 next year, if new housing construction, home repairs and remodeling maintain their surprisingly high levels. GP's average annual P/E is 10 to 12, which suggests a stock price of $50-plus over the next 12 months. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

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AMETEK, INC. N

AMETEK SHOWS RECORD SALES WHILE EFFECT OF SPIN-OFF CUTS REPORTED PROFITS

Paoli, PA, (July 26, 1988)—AMETEK, Inc. (nyse/pse-AME) today reported continued strong results for its second quarter in a transitional period as the industrial manufacturer readies the previously-announced spin-off to its stockholders of a newly-formed corporation which will be named Ketema and contain several AMETEK divisions.

AMETEK's second quarter and first half sales and profit figures announced today account for the spin-off as if it had been completed, and the previous year's totals have been restated. In the three months ended June 30, sales of the continuing operations (AMETEK less Ketema) increased 23 percent to a record $133.4 million, compared to last year's second quarter sales of $108.6 million. For the first six months of 1988 AMETEK's sales from continuing operations were also a record at $262.3 million, up 25 percent above the $209.1 million shipped in the first half of 1987.

AMETEK's after-tax income from continuing operations reached $10 million or 23 cents per share in the second quarter of this year, up slightly from $9.8 million or 22 cents per share in the previous year. In the first six months of 1988 AMETEK reported a record $21 million of income from its ongoing businesses, equal to 48 cents per share, compared to $18.3 million or 41 cents per share in the first half of 1987.

Sales of the operating divisions that will become Ketema totalled $48.8 million in the second quarter of 1988 and $46.7 million in the same period of 1987. Six month totals for the new corporation reached $96.9 million in the current year compared to $90 million in 1987.

These Ketema operations showed a loss of $2.1 million net of taxes in the second quarter, representing a 4 cent per share charge against AMETEK's earnings. In last year's second quarter these operations contributed a $1.1 million profit, equal to 3 cents per share.

In the first six months of 1988 the operations to be spun off recorded a loss of $2.5 million or 5 cents per share net of taxes, compared to $2.5 million profit in the previous year, which equates to 6 cents per share. AMETEK president Robert L. Noland said that the primary reasons for this reversal—from modest profits last year to the current year's losses—were the sharply increased costs of expanding the company's Computer Research operation from a development mode toward production of its powerful parallel processing computers, and the continuation of excess costs incurred on long term programs at the Straza division.

In the second quarter of 1988 AMETEK also provided $3.8 million net of taxes to cover the estimated costs of the pending spin-off, resulting in an additional charge against income of 9 cents per share.

This provision for the eventual spin-off, combined with the losses attributed to the operations that will be spun off, reduced AMETEK's reported net income to $4.1 million or 10 cents per share in the second quarter of 1988, compared to the $10.9 million or 25 cents per share earned in the same period last year.

For the first six months of 1988 AMETEK reported net income of $18.3 million or 42 cents per share—which includes a $3.6 million credit (8 cents per share) from a tax accounting change earlier this year—compared to earnings of $20.8 million or 47 cents per share last year.

AMETEK's chairman Dr. John H. Lux said that the second half of the year should be a strong period for the continuing operations of AMETEK as new orders and backlog continue to indicate record demand for its industrial plastics, electric motors, aircraft and automotive instrument product lines. "At the same time we have been making the necessary adjustments in response to increasing metal and plastics costs," Dr. Lux said, "which should position the remaining AMETEK operations to build on the first half's $21 million after-tax income."

Contact: Darrah Ribble, AMETEK, Inc. Station Square Two, Paoli, PA. 19301. Phone (215) 647-2121.

TELEFLEX, INC. A

TELEFLEX INCOME AND REVENUES INCREASE IN SECOND QUARTER

Limerick, PA, July 14, 1988—Teleflex Incorporated today reported that net income for the second quarter ended June 26, 1988 increased by 19% to $6,284,000 compared to $5,285,000 for the same three months last year. Revenues increased 22% to $81,535,000 for the quarter versus $66,567,000 for the same period in 1987. Earnings per share advanced 21% to $.58 from $.48 last year.

Net income for the first six months of 1988 increased 21% to $11,996,000 or $1.11 per share compared to $9,945,000 or $.90 per share for the same period in 1987. Revenues rose 20% to $159,072,000 compared to $132,358,000 last year.

COMPARATIVE SUMMARY OF REVENUES AND EARNINGS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 26, 1988	June 28, 1987	**June 26, 1988**	June 28, 1987
Revenues	**$81,535,000**	$66,567,000	**$159,072,000**	$132,358,000
Net Income	**$6,284,000**	$5,285,000	**$11,996,000**	$9,945,000
Earnings per share	**$.58**	$.48	**$1.11**	$.90
Common shares outstanding			**10,652,000**	10,803,000

Teleflex Incorporated is a company which solves engineering problems by the development and application of specialized technologies.

(Contact: John H. Remer, Vice Chairman or John F. Schoenfelder, Vice President & Treasurer, Teleflex, Inc., 155 South Limerick Road, Limerick, PA 19468. Phone: (215) 948-5100.)

AFFILIATED PUBLICATIONS, INC. N

AFFILIATED ANNOUNCES INCOME FROM CONSOLIDATED OPERATIONS; FINAL RESULTS TO BE RELEASED BY AUGUST 10

BOSTON, MA., July 14, 1988—Affiliated Publications, Inc. announced today that income from consolidated operations for the second quarter of 1988 was $16,046,000 or $.23 per share, versus $17,214,000 or $.24 per share for the second quarter of 1987. Income from consolidated operations for the first six months of 1988 was $26,941,000 or $.39 per share as compared with $28,213,000 or $.40 per share for the same period a year ago. (All per share amounts have been retroactively restated to reflect the two-for-one stock split effective June 30, 1988.)

(Important: Income from consolidated operations does not include the impact of charges to earnings from Affiliated's investment in McCaw Cellular Communications, Inc. of Kirkland, Washington. Affiliated will report its final results for the second quarter and six months, including an earnings charge related to McCaw, when McCaw's results of operations are announced during the second week of August.

Revenues for the second quarter were $140,412,000 compared with $125,932,000 for the second quarter of 1987. Revenues for the first six months of 1988 were $267,130,000 versus $228,725,000 for the same period a year ago. A portion of this increase in revenues was attributable to the inclusion of results of operations for Billboard Publications, Inc., acquired on May 1, 1987.

Affiliated Publications is the parent company of Globe Newspaper Company, publisher of *The Boston Glob* owns Billboard Publications, Inc., a leading publ specialty magazines and books for the arts, des entertainment markets and The Globe Pequot Pr publisher and retailer of regional special interest b travel guides.

In addition Affilitated owns 61,538,000 shares o Cellular Communications, Inc., the largest cellu phone systems operator in the United States and o nation's top ten paging operations.

AFFILIATED PUBLICATIONS, INC.

Consolidated Statement of Income From Consolidated Operat

(All amounts in thousands except share and per share amou

	Second Quarter		Year to D
	6/26/88	6/28/87	**6/26/88**
Operating revenues			
Advertising	**$109,290**	$101,601	**$208,079**
Circulation	**23,955**	20,670	**46,150**
Other	**7,167**	3,661	**12,910**
	140,412	125,932	**267,130**
Operating Expenses			
Direct costs of production	**59,300**	49,403	**114,310**
Selling	**29,017**	25,624	**56,554**
General and administrative	**16,495**	14,211	**32,291**
Depreciation and amortization	**6,327**	5,359	**12,468**
	111,139	94,597	**217,643**
Operating income	**29,273**	31,335	**49,487**
Operating income (expense)			
Interest expense	**(2,411)**	(406)	**(4,429)**
Interest income	**101**	756	**313**
Minority interest	**(61)**	(73)	**(161)**
Other, net	**(135)**	104	**(242)**
	(2,506)	381	**(4,519)**
Income from consolidated operations before income taxes	**26,767**	31,716	**44,968**
Provision for income taxes	**10,721**	14,502	**18,027**
Income from consolidated operations	**$16,046**	$17,214	**$26,941**
Per Share Information:			
Income per share from consolidated operations	**$0.23**	$0.24	**$0.39**
Shares used in per share calculation	**69,066,842**	70,427,666	**69,093,953**

Note - The above results do not include a charge to earnings for equity in incom Company's unconsolidated affiliate, McCaw Cellular Communications, Inc for the second quarter and six months of 1988, which will include a cha losses, are expected to be announced in August

Share and per share amounts have been computed based on the weigh number of shares of common stock outstanding during each period retroactive effect to the two-for-one stock split effective June 30, 1988

Line of Business Information

Revenues			
Newspaper	**$117,252**	114,770	**$225,423**
Specialty publishing	**23,160**	11,162	**41,707**
	$140,412	$125,932	**$267,130**
Operating income:			
Newspaper	**$26,104**	$30,583	**$47,321**
Specialty publishing	**2,234**	1,880	**4,315**
General corporate	**(1,127)**	(1,128)	**(2,149)**
	$29,273	$31,335	**$49,487**
Depreciation and amortization			
Newspaper	**4,901**	4,647	**8,931**
Specialty publishing	**1,255**	561	**2,235**
General corporate	**171**	151	**322**
	$6,327	$5,359	**$12,468**

Note - The above results do not include a charge to earnings for equity in incom Company's unconsolidated affiliate, McCaw Cellular Communications, Inc for the second quarter and six months of 1988, which will include a cha losses, are expected to be announced in August

Share and per share amounts have been computed based on the weigh number of shares of common stock outstanding during each period retroactive effect to the two-for-one stock split effective June 30, 1988

(Contact: Daniel Orr, Vice President, Affiliated P tions, Inc., 135 Morrissey Boulevard, Boston, MA Phone: (617) 929-3035.)

Continued on the followin

TED TELECOMMUNICATIONS, INC. N

NSAS CITY, MO—July 20, 1988—United Telecommuni- ns, Inc. earnings per share increased to 73 cents in the alf of 1988 from a loss of $1.07 per share in the first six hs of 1987 President William T. Esrey announced today. rnings per share in the second quarter were 40 cents, ared to a loss of $1.20 in 1987. The 1987 results ded a one-time charge of $1.09 per share related to US t Communications Company.

rnings per share from continuing operations were 34 for the quarter and 66 cents for the first half, ared to losses of $1.19 and $1.04, respectively, in the sponding periods in 1987. United Telecom's cellular le telephone and paging operations, which are to be to Centel Corporation for $763 million, have been ssified as discontinued operations. Results in the first included gains from completed sales of cellular or ng properties in several smaller markets. The gain on 763 million sale will be recognized when the transac- is completed.

rey said progress at US Sprint, coupled with a continu- strong performance in the company's local telephone ations, contributed to the earnings improvement.

rey also reported that an agreement enabling United om to purchase controlling interest in US Sprint Com- ications Company had been completed, and approved e GTE Corp. board of directors. United Telecom and GTE announced on July 18 that they had completed negotia- of a transaction calling for United Telecom to purchase dditional 30.1 percent interest in US Sprint from GTE. ransaction is expected to close January 3, 1989, or as thereafter as all regulatory approvals are obtained.

onsolidated revenues and sales, which do not include results of US Sprint, increased 6.5 percent to $1.52 n in the first half from $1.43 billion in the correspond- period in 1987.

come from telephone operations increased 11.8 percent 194.2 million in the first half of 1988, on revenues of billion.

rey said United Telecom's telephone companies had ptional growth in the first half of 1988. Access lines ased at an annualized rate of 5 percent in the first six ths and long distance calling volume was up 13 percent the first half of 1987.

evenues and sales in United Telecom's complementary nesses increased 11 percent to $348 million in the first Income from this group increased to $4.4 million from million in the first half of 1987.

S Sprint revenues climbed to $799 million in the second ter and $1.56 billion in the first half, from $546 million $1.16 billion in the corresponding periods of 1987. US t's pre-tax loss in the quarter was $112 million, down $138 million in the first three months of 1988.

nited Telecom's equity in the loss of US Sprint was ced to $31.7 million in the second quarter and $77.9 on in the first six months, compared to $188.8 million he three months and $251.9 million for the six months d June 30, 1987. The 1987 results included a one-time ge of $108.5 million in the second quarter.

US Sprint's progress reflects continuing growth in nue and a significant strengthening of its operations," y said. "Now that all traffic has been moved to the new -optic network, US Sprint has a competative advantage provides a solid foundation for further growth."

UNITED TELECOMMUNICATIONS, INC.
(Consolidated) (Thousands of Dollars)

	Six Months Ended June 30, 1988	1987*
ues and Sales:		
d Telephone Systems	$1,214,788	$1,154,074
plementary Businesses	348,010	313,514
-company sales	(42,759)	(40,336)
	$1,520,039	$1,427,252
rint Revenues	$1,558,652	$1,160,832
e (Loss) from Continuing erations	68,212	(101,078)
ntinued Operations	7,333	(3,705)
come (Loss)	75,545	(104,783)
red Stock Dividends	1,661	1,754
gs (Loss) cable to Common Stock	$ 73,884	$ (106,537)
gs (Loss) per Common Share Continuing Operations:		
uming no dilution	$.66	$(1.04)
uming full dilution	$.65	$(1.04)
gs (Loss) per Common Share:		
uming no dilution	$.73	$(1.07)
uming full dilution	$.73	$(1.07)

lassified to reflect discontinued operations and the adoption of a revised form system of accounts by the United Telephone System

Contact: Don Forsythe, United Telecommunications, Inc., Box 11315, Plaza Station, Kansas City, MO 64112. e: (913) 676-3343.)

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Alan Greenspan can't seriously fight inflation, because another crunch would throw us into a depression overnight.

THE U.S. AS A THIRD WORLD ECONOMY

By Ashby Bladen

We still have a little time left in which to avert disaster by learning from the misfortunes of the Third World, but we are failing dismally to take advantage of it. Ever since Teddy Roosevelt became the first Progressive President in 1901, our government has increasingly assumed the responsibility for maintaining national prosperity. Nobody had any clear idea how it could do that until the mid-1930s, when the Keynesian economists theorized that the main threat to prosperity is a propensity to save excessively. They reversed our grandparents' ideas about financial responsibility by making villains of people who save to provide for their own family needs. Their heroes are the politicians who offset the destabilizing propensity to save by government borrowing and spending, and by public policies that encourage us to borrow and spend ourselves rich.

Progressive and Keynesian policies had the unforeseen result of transforming the American people from self-reliant savers into spendthrifts who expect the government to take care of our personal responsibilities for us. This year's campaign speeches show how thoroughly we now rely on government subsidies and tax breaks to solve our problems, but the only real solution to our financial woes is to change the way we look at them. As long as we see them through Progressive and Keynesian lenses, we will only get ourselves more deeply into debt.

Unfortunately, our country is overrun with Progressive economists who have a vested interest in blinding us to the lessons of the Third World disaster. Because they think government-sponsored borrowing and spending is the solution, they cannot admit that excessive debt is the problem. So they deny that the Depression was caused by the burden of debts piled up during the spree of 1914-29.

Nor can they admit that borrowing and spending cause inflation. They say the money has to be there before it can be borrowed, so as long as the central bank controls the money supply properly, all will be well. They argue that a government can finance either by issuing money or by selling debt for money that is already in the hands of the people, and that financing with debt will not cause an inflationary increase in the money supply. They ignore the facts that the liquid claims called money are government debts and that because nobody likes to get stuck with a sunk investment anymore, we are turning all debts into liquid claims by securitizing them. This liquidification of private debts is increasing the risk of runaway inflation just as surely as would a monetization of the federal debt.

Finally, the economists tell us that Paul Volcker killed inflation dead in 1982, but I have yet to see a plausible explanation of just how he is supposed to have done it. In fact, the Fed cannot fine-tune the creation of credit to finance real growth without inflation.

The Fed can easily cause a credit crunch and, in time, an inflation-killing financial crisis. For when the Fed refuses to create all the reserves the market wants, the weakest borrowers get squeezed out. When they need a loan not to finance a new investment but to refinance a maturing debt, getting squeezed out means bankruptcy.

Enough bankruptcies will indeed kill inflation, but the Fed has balked at that hurdle four times since 1966. And since 1982 Americans have been on an unprecedented borrowing spree. By now we are so overextended that another crunch would cause a depression overnight.

When Chairman Greenspan told congressional committees last month that the Fed would err on the side of restrictiveness, he was talking the language of the fine-tuning that failed in 1966, in 1970 and again in 1975. We can be quite certain that no matter how bad inflation gets, the Fed will not again engineer a 1980-82-style crunch. If there is another one, it will be caused by a collapse of foreign confidence in our national creditworthiness, and it will be a disaster.

So far we have been spared the inflationary consequences of our spree by the troubles of the Third World oil- and commodity-producing countries that followed the advice of the Keynesian development economists. They tried to borrow themselves rich, but succeeded in getting themselves so heavily in debt that they now must sell their products for whatever they will bring. Their national standards of living are falling along with the foreign-exchange value of their currencies, but they have kept their domestic inflations going by bailing everybody out on the credit of the state. As long as their creditors accommodate them, their domestic and foreign debts will continue to rise, in spite of the fact that they can't pay what they owe now.

We are increasingly doing the same things here, and the ultimate consequences are bound to be much the same. As long as our government underwrites prosperity by making credit excessively available, the basic trend of inflation and interest rates will continue to be up. ■

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis

Many market letters are bullish on bonds, but note: The three with the best bond market forecasting records are bearish.

DIVERGENCE

By Mark Hulbert

Are bonds still in a bear market and to be avoided in spite of their current juicy yields? In my last column on bond market timers *(Apr. 25)*, I focused on the divergence between the outlooks of the best performers and the drab majority. Then, the best-performing timers were significantly more bearish than the crowd, and I noted that on previous occasions when the best performers differed so much from the consensus, the elite more often than not turned out to be right. Thus, their relative bearishness was bad news for bonds.

This turned out to be true. Bonds have fallen some 7.5% since then, impressing me even more that divergences among the best and the rest are worth paying attention to. After last October's crash, for example, the best bond timers correctly turned more bullish than those with inferior records. Bonds appreciated at a 20% annual rate before the negative divergence arose in late March.

Unfortunately for bond bulls, the picture that emerges today is as bearish as it was in March. The best-performing bond market timers currently are unanimous in advising investors to be out of bonds. The average bond-market exposure among all timers, in contrast, stands at a relatively bullish 28%—almost exactly where it stood at the time I wrote my column on bonds this spring.

To insure that I'm not misunderstood, I need to respond to a letter I received after my previous column on this subject. A reader objected that it is hardly surprising when the advice of the best performers turns out to be more profitable than the average—since that is what made them the best performers in the first place. But I'm not doing anything so pointless as using 20/20 hindsight to say that the most profitable advisers had what turned out to be the best strategy. Instead, I'm trying to discover whether the sentiment among a given period's top performers is a good predictor of the market's subsequent behavior.

As was the case with my previous columns, I have chosen the period since the beginning of 1985 to determine those who have beaten the market. Since then only three bond market timers followed by the *Hulbert Financial Digest* have done significantly better than simply buying and holding. The winning three are Paul Merriman's *Fund Exchange*, Gerald Appel's *Systems & Forecasts* and Robert Prechter's *Elliott Wave Theorist*.

Among the three, the best performer over this 3½-year period is Merriman's *Fund Exchange*. A portfolio that alternated between the Dow Jones 20-bond average and T bills on Merriman's switches would have made 44.2% since the beginning of 1985, as compared with the 22.7% return of buying and holding. So far in 1988 Merriman has recommended four switches, his most recent foray into the bond market lasting from mid-June to mid-July. Though his most recent signals came within a month of each other, on average since 1985 his signals have occurred once every two months. Right now he is telling his followers to avoid bonds.

Generating the identical number of switches since 1985, and achieving almost the same performance (42.7%), is Appel's *Systems & Forecasts*. In fact, Appel's and Merriman's systems must be quite similar: Their switches so far this year on average have occurred two days apart. Appel's most recent signal was a sell on July 18.

The third market-timing strategy that has significantly beaten a buy-and-hold strategy since the beginning of the 1985 period is the advice for investors contained in Prechter's *Elliott Wave Theorist*. And his bearishness is much more long-term than that of either Appel or Merriman. Prechter has recommended that investors be out of the bond market (or short) for all of 1988, and currently gives no indication that he is close to turning bullish. Since the beginning of 1985 a portfolio alternating between the Dow Jones 20-bond average and T bills on Prechter's advice for investors would have made 35.8%, beating the buy-and-hold strategy's 22.7%. Prechter, too, is bearish on bonds right now.

I should point out that Prechter offers a more aggressive bond-trading strategy for traders, and not only has it underperformed his advice for investors, it has failed to beat a buy-and-hold approach since 1985. At present, Prechter's advice for both traders and investors is identical: Stay out.

The bearishness of the winning three is not necessarily for the long term. Because both Merriman and Appel rely heavily on trend-following indicators, it is likely they would turn bullish fairly soon if bonds rallied strongly from here.

Will they rally? Typically in election years the Federal Reserve pursues relatively easy monetary policies, which is good for the bond market. The divergence between the best and inferior performers suggests that 1988 will be different. The next few months thus stack up as a dramatic test of the best market timers' winning ways. ■

Mark Hulbert is editor of the Washington, D.C.-based Hulbert Financial Digest *and author of* The Second Hulbert Financial Digest Almanac, *published by Minerva Books.*

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Edited by Thomas Jaffe

Nuclear fallout

Some very smart investors have been nosing around Long Island Lighting Co. now that New York's Mario Cuomo has reached a tentative agreement with Lilco to abandon the utility's never-opened Shoreham nuclear power plant. But Anthony Marchese, of New York's Weatherly Capital Corp., has been tracking Lilco's 12 Big Board-listed preferred stock issues and is not enthusiastic.

Lilco preferred stock dividends have been in arrears since the middle of 1984. Once the pact is ratified by the state legislature, Lilco anticipates its credit rating will again be investment grade. Marchese has calculated the arrearages through July 30, 1988, then assumed the stocks will trade with a 10% yield after paying out the arrearages. Assuming an investor is paid the arrearage in the first quarter of 1989, a nine-month holding period, the annualized rates of return would range from 12%—for the $3.50 Lilco preferreds—to 21% for the $2.47 preferreds. (Others would have slightly higher returns, but these are illiquid.)

But, hold on. Marchese stresses that these returns depend upon everything falling neatly into place within nine months. Plenty could go wrong. Interest rates, assumed flat in Marchese's analysis, could well rise, reducing the preferreds' market value. Worse, leading New York lawmakers and Cuomo are still sharply divided on his plan to give Lilco handsome rate increases and tax benefits in return for abandoning Shoreham. Unless this deal goes through, Lilco may face bankruptcy. In that case, says Marchese, "preferred holders would face a virtual loss of principal, since arrearages would never be paid and equity in the company after payment to the bondholders would be minimal."—T.J.

Reebok redux

Without question some of the catchiest new advertising of the year is "Reeboks let U.B.U.," Reebok International Ltd.'s $20 million TV and print campaign. And just in case buyers of athletic shoes don't get the message, Reebok (estimated 1988 sales, $1.8 billion) is including in that blitz special ads tied to the Seoul Olympics, where it will be the exclusive footwear advertiser. Marie de Lucia, an analyst for New York's Tucker, Anthony & R.L. Day, is sold on the stock. She thinks Reeboks have moved from fad to franchise. According to the company's market research, Reeboks are worn in six out of ten U.S. households that purchased athletic shoes last year, more than double the number in 1985. This is largely because the company has been busy developing and acquiring other kinds of athletic shoes. Last year, for instance, it paid $180 million for AVIA Group International. There have been acquisitions in other areas as well: Ellesse North America (sportswear), John A. Frye (boots) and Rockport (lightweight walking shoes).

From Reebok's new ad campaign
Less a fad, more a franchise?

On the negative side, Reebok depends heavily on Korea, where wages are on the rise, for manufacturing. Also, the price of leather has increased, putting a squeeze on margins. But even so, de Lucia estimates Reebok will earn $1.70 a share (up 14%) in 1988, and is looking for $2 (up 18%) in 1989. Recently 14½ on the NYSE, the stock sells for just seven to eight times de Lucia's projected 1989 earnings. There are 112.7 million common shares, 32% owned by the U.K.'s Pentland Industries Plc., and about 15% by Chairman Paul Fireman and his wife, Phyllis.—T.J.

Striding right

Speaking of shoes, First Boston's Margaret Gilliam likes $334 million (sales) Stride Rite Corp. of Cambridge, Mass. Stride Rite owns some famous brands: Keds sneakers and casual footwear; Sperry Top-Sider boating and outdoor footwear; and, course, Stride Rite children's foo wear. It also operates Stride Rite Boo ery stores, leased shoe departments i chains such as Macy's and Jorda Marsh, and Overland Trading Co., small chain that sells adult footwea

Stride Rite has been in the forefro of sourcing its production from ove seas. In the U.S. it now operates onl three plants, in Missouri, that mak children's leather shoes. Most of th manufacturing is now done i such countries as Korea, Malaysi Haiti, the Dominican Republi and, starting next year, Thailand

For the fiscal year ending No 30 Gilliam thinks Stride Rite wi earn $2.35 a share, up 47%, an predicts a 28% gain the followin year, to $3.00. The stock is ahea more than 70% since the begi ning of the year, but even so, i recent price of 28⅛ doesn't put in the stratosphere.

Meanwhile, the company co tinues to throw off excess cas with which it has been repurcha ing shares. Since 1987 it ha bought in some 1.6 million, and i authorized under a buyback plan t repurchase 2.4 million more. Ther are currently about 13.7 million com mon shares outstanding. Insiders co trol less than 5%.—T.J.

Another shoe story

While doing your shoe researc check out $5.9 billion (sale Melville Corp. Millions of consume flock to Melville's 4,000 stores ever year, among them such well-know chains as Thom McAn (shoes), Ma shalls (apparel), Kay-Bee (toys), CV (drugs) and Wilson's (leather apparel But far fewer investors are flocking t the specialty retailer's shares. Despit ten years of 15% annual earning growth rate and a 20%-plus return o investment, Melville—recent NYS price of 69—trades at only 11 time this year's estimated earnings of $6.1 a share. (The market as a whole is a 10.9 times.) "The market still view Melville as a stodgy shoe and appare retailer," explains Morgan Stanley an alyst Kathryn Ellis, who likes th company. "But it's a lot more today with 40% of sales coming from toys household items and drugs. That i

hat's driving the earnings gains ıese days."

Ellis thinks Melville's earnings can :ow at 12% to 15% over the next :veral years and should sell for more ıan $90 a share within a year. If not, Ielville has considerable underlying alue. "If management, which owns :latively few shares [insiders hold .6% of the 54.4 million common utstanding], can't or won't maxiize the values," says Ellis, "someıe else eventually will try. There is ·ell in excess of $100 of breakup vale in Melville."—**Howard Rudnitsky**

ife after recapitalization

ast November was a busy month for Carson Pirie Scott & Co. The ld-line Chicago retailer sold its airort terminal concessions and airline ıtering business to Greyhound for 390 million, exchanged $30 in cash ıd one new share for each old CPS ıare, and acquired Donaldsons Deartment Stores—mainly in Minneolis/St. Paul—for $155 million.

All of which meets with Robert Coen's approval. Cohen, an analyst ith New York's Mabon, Nugent & o., says the new CPS should do $1.2 illion in sales this year. Besides the 5 Donaldsons stores (to be renamed arsons this fall), the company consts of 19 Carsons (in Illinois and ıdiana), 340-odd County Seat jeans ear stores, over 20 Arcadia card and ft shops and a direct marketing divion. Assets include valuable real esıte, which Cohen thinks is worth ıore than Carson's entire $180 milon market capitalization (there are 3.1 million NYSE shares outstandıg.) At a recent price of 13¾, then, he ıys you're getting the retail business ır free.

Yet CPS sells for just 3.9 times his ;timate of 1988 cash flow, $3.50 per ıare, and only a little over book. In ıis market, department store chains, scounters and specialty retailers ade at over 1.6 times book and at 6 mes cash flow.

Why the discount? Cohen admits ırnings will be uninspiring near ·rm. CPS is in the middle of remodelıg and restocking stores. Interest exense is up because of the Donaldson :quisition. Cohen estimates CPS ill earn 90 cents a share this year, up cents over 1987. He's looking for 1.25 a share in 1989. Cohen has bullh company. During the past year, ıanagement and employees have ineased their ownership from less ıan 5% to over 20%.—**T.J.**

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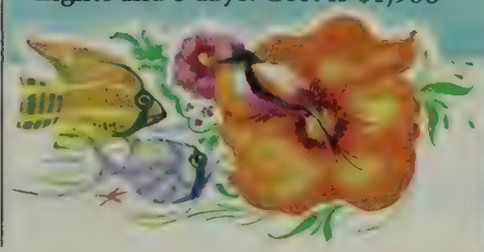

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Forbes Index

INDEX OF COMPANIES COVERED IN NEWS STORIES AND BY THE COLUMNISTS IN THIS ISSUE. EACH REFERENCE IS TO THE FIRST PAGE OF THE STORY IN WHICH THE COMPANY NAME APPEARS.

Allied Stores (Jordan Marsh) ... 126
AMC Entertainment ... 60
Amerada Hess ... 34
AMP ... 130
Apple Computer ... 20
Aqueduct I ... 14
Arbella Mutual Insurance ... 14
Asarco ... 10
AT&T ... 61
Atthowe Fine Art Services ... 105
Autodesk ... 112
Baldwin-United ... 61
Banc One ... 96
Bankers Trust New York ... 69
Bankhaus I.D. Herstatt ... 69
Bear, Stearns ... 15
Beverly Hills Savings & Loan ... 10
Bombay Palace Restaurants ... 85
Boothe Financial ... 88
Borg-Warner ... 108
Bose ... 100
British Petroleum ... 69
Brown-Forman ... 56
Campeau (Bloomingdale's) ... 56
Campeau (Federated Department Stores) ... 117
Cannell Studios ... 48
Cannon Mills ... 88
Capehart ... 100
Capital Cities/ABC ... 48
Carmike Cinemas ... 60
Carson Pirie Scott ... 127
Castle & Cooke ... 88
CBS ... 16
Central Maine Power ... 90
Chase Manhattan ... 69
Cineplex Odeon ... 60
Citicorp ... 69, 108
Clayton & Dubilier ... 117
Clemente Global Growth Fund ... 114
Coca-Cola ... 19
Compustat ... 118
Consolidated Freightways ... 98
Continental Group ... 24
Cookes Crating ... 105
Crescent Japan Investment Trust ... 114
Crown Central Petroleum ... 34
Crozier Fine Arts ... 105
Cummins Engine ... 117
Daimler-Benz ... 98
Data General ... 112
De Laurentiis Entertainment ... 14
Deere ... 38
Della Femina, McNamee WCRS ... 17
Diamond Shamrock R&M ... 34
Diasonics ... 14
Disclosure ... 118
Dow Jones *(Wall Street Journal)* ... 22, 104
Drexel Burnham Lambert ... 35
Duke Power ... 17
Dunes Hotel & Casinos ... 16
Eastman Kodak ... 69, 102
Edinburgh Fund Managers ... 114
EDJ Leasing ... 61
Elliott Wave Theorist ... 123
Emcor Eurocurrency Management ... 69
Exxon ... 34
Fairchild Industries ... 108
Federal National Mortgage Association ... 16
Film & Television ... 14
Fireman's Fund ... 14
First Boston ... 112, 126
First of America ... 96
Ford Motor ... 102
Freeport McMoRan ... 117
Friendly Press/Outlet Book ... 22
Fund Exchange ... 123
Fuqua Industries ... 60
GE ...
GE (NBC) ...
General Cinema ...
General Mills (Betty Crocker) ...
General Motors ... 20, 61, 98, 1
Georgia-Pacific ... 1
Geosafe ... 1
Goldman, Sachs ...
B.F. Goodrich ... 1
Government National Mortgage Association ...
W.R. Grace ... 1
Greyhound ... 1
GTE ... 10, 1
Robert Half ...
Hallmark ...
John Hancock Mutual Life Insurance (Tucker, Anthony & R.L. Day) ...
Harper & Row ...
Haun, Raab, Webster ...
John S. Herold ...
Hitachi ... 1
Hulbert Financial Digest ... 1
Hydro-Quebec ...
IBM ... 98, 1
Industrial Bank of Japan ...
Information Dimensions ... 1
Integrated Resources ...
Intel ...
Isuzu Motors ...
James River ... 1
Japan Fund ... 1
Edward D. Jones ...
Judson Art Warehouse ... 1
Kaufman & Broad ... 1
Kelly Services ...
Kelso (Arkansas Best) ...
Kemper Group ...
Kerr-McGee ...
Keystone Consolidated Industries ...

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.aventhol & Horwath 85
.evi Strauss 130
.evolor Lorentzen 108
.ong Island Lighting 126
os Angeles 10
.otus Development 112
.ufthansa 69
Mabon, Nugent 127
Macomber Associates 56
R.H. Macy 56, 126
R.H. Macy (I. Magnin) 117
Main Street Journal 44
Matsushita Electric Industrial
(Panasonic) 100
Maxicare Health Plans 52
Maxus Energy 34
May Department Stores
(Filene's) 117
MCA (Universal Television) 48
McDermott 117
McDonald's 19
McDonnell Douglas 88
McGraw-Hill (Standard & Poor's) 118
McKinsey 69
Melia 38
Melville 126
Merrill Lynch 35, 61, 114
Meyers Parking System 15
Micron Technology 37
Minolta 20
Mitsubishi 100
Mitsui 38
Money 10
Morgan Stanley 34, 69, 126
William Morrow 22
MTM Productions 48
Multinational Computer Models 69
National 37
Natural Resource Management 61
NEC 100
Nike 98
Noritake 56
Northern States Power 90
Occidental Petroleum 34, 88
Olsten 88
Overland Trading 126
Pacific Holding 88
Peat Marwick Main 85
Pentland Industries 126
PepsiCo (Pizza Hut) 16
Petro-Lewis 61
Philip Morris 118
Philips 100
Phillips Petroleum 112
La Prensa 38
Prescott, Ball & Turben 34
Prudential Insurance 14, 56, 61
Quaker Oats 119
Random House
(Alfred A. Knopf) 22
Reebok International 126
Resorts International 35
RJR Nabisco 118
Roadway Services (Viking Freight) 98
Rolling Stone 16
San Marino Group 38
Santa Fe Southern Pacific 117
Charles Schwab 14
Seagate Technology 112
Seidman & Seidman 52
Sharp 100
Sheridan Catheter 108
Sherlock 52
Sheshunoff 96
Singapore Airlines 104
Smilen Investment Research
& Management 115
Société Générale 109
Sony 100
Southmark 61
Sterling, Grace 114
Stride Rite 126
Sumitomo Fire & Marine 114
Sun 34
Systems & Forecasts 123
Taj Majal bonds 35
Tandem Computers 112
Tele-Communications (United Artists
Communications) 60
Television South 48
Tenneco 34
Texaco 34
Texas Air (Eastern Air Lines) 98
Texas Instruments 37
Thomson 100
Total Petroleum (North America) 34
Toyota 38
Trump Plaza bonds 35
Trump's Castle bonds 35
Tucker, Anthony & R.L. Day 126
TWA 130
U.S. Healthcare 52
UAL 104, 117
Uniroyal 117
United Telecommunications 10, 119
Unocal 34
USG 117
Valhi 16
Value Line Investment Survey 118
Villeroy & Boch 56
Wall Street Computer Review 118
Wall Street Transcript 118
Walton Enterprises
(Wal-Mart Stores) 60
Waterford Glass Group 56, 69
Weatherly Capital 126
Xerox 102
Yellow Freight System 98
York International 108
Zenith Electronics 100

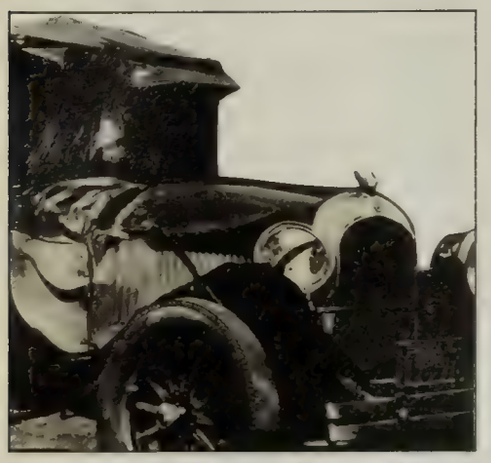
Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

Sixty years ago in FORBES

(From the issue of August 15, 1928)



In the late 1920s plate glass windshields were being replaced by safety glass

"**The swift appearance** in the automotive industry of shatter-proof glass has brought attention to a new industrial shift of equal importance to four-wheel brakes and eight-cylinder motors. The new glass is not unbreakable, for if it were, anyone thrown against it would fracture his skull or break his neck. It is flexible and non-shatterable. It will crack and score in many directions, like new ice when hit by a stone; but it will not shatter or cause flying fragments."

"**The report** of the Industrial Transference Board sets forth the hopeless condition of entire communities in England, chiefly in the mining districts, and gives the only solution of their problem as the wholesale removal of about 200,000 persons. The report urges that they migrate to more prosperous portions of England, or, better still, emigrate to the Dominions."

Fifty years ago

(From the issue of August 15, 1938)

"**Late in July** came a surprising announcement on vacation-with-pay plans—this one from the U.S. Bureau of Labor Statistics. For the Bureau made a survey of 19,842 manufacturers in 97 separate manufacturing industries, employing more than 4.5 million workers. And it found that nearly 40% of all workers in manufacturing industries are now employed by companies with paid-vacation plans in operation."

"**Training foremen**—the men on management's firing line—is common practice among employers. But training union officials—the men on labor's firing line—is something entirely new among labor unions. Yet that is precisely what the Steel Workers Organizing Committee has been doing at its Pennsylvania training camp during July. This significant move may have far-reaching consequences for employers. For it will serve to enlighten workers on the problems that beset management on every side."

Twenty-five years ago

(From the issue of August 15, 1963)

"**Charles C. Tillinghast,** president of Trans World Airlines, isn't complaining about the summer heat. 'It wouldn't bother me if we had 12 months a year like this,' he exclaimed. It was much more than the air-conditioning in his Manhattan office that gave Tillinghast this comfortable feeling. For in June, resurgent TWA had one of the most successful months in its history. On revenues for the month of $46.6 million, TWA nailed down a profit of $7.4 million—more than $1 a common share."

TWA boss Charles C. Tillinghast

"**Few industries** are as competitive today as electronics. Some 4,000 companies of all sizes and shapes struggle against one another. As a result, profits have become harder to squeeze out.

"All this makes the outstanding record of AMP Inc. (the name once was Aircraft-Marine Products) of Harrisburg, Pa. even more noteworthy. AMP has had a rather spectacular rise to prominence as the leading supplier of terminals and connectors to the electrical and electronics industries. Its sales have soared from $15 million to over $70 million in the past decade. . . . AMP has also enjoyed a profitability that is the envy of many hard-pressed competitors. Last yea for example, AMP netted more tha 10% on sales and 25% on equity."

Ten years ago

(From the issue of August 21, 1978)

"**Farmers in the South,** Midwest an West are starting to fret about wha they see as a trend toward foreig ownership of U.S. agricultural acre age. The General Accounting Office the congressional watchdog, has tak en a preliminary look at Georgia, Cal ifornia, Kansas, Missouri and Oklaho ma and found that in the counties i checked as much as 6.3% of the farm land was foreign owned. The farmer complain that the newcomers are bid ding up the price of farms, thus con tributing to higher food costs. Who i buying? The GAO found Hong Kon Chinese, Swiss, West Germans French, Dutch and Swedes, amon others, but, strikingly, no Arabs."

" '**Usually the fourth generation** [of successful family] spends its time o sports cars and jet planes. We haven't and it looks like we have a fifth genera tion [with] the same attitude we'v had.' That's Walter A. Haas Jr., 62 speaking, chairman of San Francisco quartered Levi Strauss & Co. an great-grandnephew of its founder. Th fifth generation . . . is personified b Robert D. Haas, 36, Walter Jr.'s son an a Levi Strauss senior vice president."

Levi Strauss heir apparent Robert Haas

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Thoughts
on the Business of Life

A big man knows he don't have to fight, but when a man is little and knows he's little and is thinking all the time he's little and feels that everybody else is thinking he's little, look out for him.
FINLEY PETER DUNNE

They merit more praise who know how to suffer misery than those who temper themselves in contentment.
PIETRO ARETINO

Nothing is so intolerable to man as being fully at rest, without a passion, without business, without entertainment, without care. It is then that he recognizes that he is empty, insufficient, dependent, ineffectual.
BLAISE PASCAL

Mockery is often the result of a poverty of wit.
JEAN DE LA BRUYÈRE

Adversity is the first path to truth.
LORD BYRON

Not to get what you have set your heart on is almost as bad as getting nothing at all.
ARISTOTLE

The misfortune of the wise is better than the prosperity of the fool.
EPICURUS

The sure way of knowing nothing about life is to try to make oneself useful.
OSCAR WILDE

There is a paradox in pride—it makes some men ridiculous, but prevents others from becoming so
CHARLES CALEB COLTON

The man out of work feels that the world is getting along very well without him. He is useless, superfluous, needed by no one, a nuisance. Nobody wants to hear his tale of woe. Everybody seems so busy with his own affairs, so preoccupied, so self-centered—and so selfish. To be an outcast in the labor market first challenges and then often kills pride, confidence, self-respect.
B.C. FORBES

It is as proper to have pride in oneself as it is ridiculous to show it to others.
LA ROCHEFOUCAULD

As this is the simple truth—that to live is to feel oneself lost—he who accepts it has already begun to find himself to be on firm ground.
JOSÉ ORTEGA Y GASSET

Every man is wanted, and no man is wanted much.
RALPH WALDO EMERSON

A man can look upon his life and accept it as good or evil; it is far, far harder for him to confess that it has been unimportant in the sum of things.
MURRAY KEMPTON

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Blessed is he who expects no gratitude, for he shall not be disappointed.
W.C. BENNETT

Let a man's talents or virtues be what they may, we only feel satisfaction in his society as he is satisfied in himself.
WILLIAM HAZLITT

There is but a step between a proud man's glory and his disgrace.
PUBLILIUS SYRUS

To be employed in useless things is half to be idle.
THOMAS FULLER

We are reassured almost as foolishly as we are alarmed; human nature is so constituted.
VICTOR HUGO

A Text . . .

Wherefore let him that thinketh he standeth take heed lest he fall.
1 CORINTHIANS 10:12

Sent in by Jane McGuire, Hartford, Conn. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

In this world of resemblances, we are content with personating happiness; to feel it is an art beyond us.
HENRY MACKENZIE

Labor rids us of three great evils—irksomeness, vice and poverty.
VOLTAIRE

Meekness, n. Uncommon patience in planning a revenge that is worthwhile.
AMBROSE BIERCE

September 5

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Forbes

Brian Ajhar

34 *Ted Turner*

42 *Hog speculators*

SEPTEMBER 5, 1988
VOLUME 142
NUMBER 5

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 284 AND 285.

COMPANIES

34 Turner Broadcasting System
By Subrata N. Chakravarty
Ted Turner defies his detractors.

39 Kemper Corp.
By Rick Reiff
An insurer gets into stockbrokerage.

56 Henley Manufacturing Corp.
By Howard Rudnitsky
Dingman's consolation prize.

64 Up & Comers: WD-40
By Fleming Meeks
Success creates its own problems. Also: **DIC Enterprises; NTC Group.**

74 Ford Motor
By Steve Kichen and Jerry Flint
Profits from the 1989 T-bird.

80 Quaker State
By Kerry Hannon
It used to be number one.

82 Citytrust Bancorp
By Robert T. Grieves
A bank that knows its borrowers.

90 Omni Holding
By Richard C. Morais
Rich young Werner Rey.

INDUSTRIES

37 Fur
By Matthew Schifrin
Guess who's getting in?

38 Foreigners Invade Hollywood
By Lisa Gubernick
After all, Europeans, Latins and Asians love U.S. TV and movies.

42 Cattle And Hogs
By Phyllis Berman with Dana Wechsler
The Basses discover livestock.

REGIONS

84 Rocky Mountain Low
By Rick Reiff
How to revive depressed Denver.

INVESTING

36 Car Dealers Go Public
By Charles Siler
We'd rather buy a Yugo.

60 Downgraded!
By Laura Jereski
And the munis were insured.

88 Money Men: William Nightingale
By Laura R. Walbert
A talk with a corporation doctor.

282 Streetwalker
Imperial Chemical Industries; Savannah Foods & Industries; Michigan National; Citizens Banking Corp.; Reynolds & Reynolds.

MARKETING

96 Timex Sells Fitness
By Christie Brown
The watch company is ticking again. Also: Muzak with commercials.

SCIENCE & TECHNOLOGY

104 Overpowered Boats
By Edward Giltenan
If you want to do 60 in the water. Also: computer-enhanced meetings.

PERSONAL AFFAIRS/CAREERS

110 Infrequent Fliers
By Michael Fritz
Fly now or lose your freebies. Also: prostate cancer; deferred comp.

114 Dombey & Daughter
By Richard Greene
Equal opportunity in family business.

DEPARTMENTS

6 Side Lines
8 Follow-Through
12 The Informer
14 Readers Say
17 Fact and Comment
22 Other Comments
25 Fact and Comment II
287 Flashbacks
288 Thoughts

COLUMNISTS

275 Ben Weberman
276 Kenneth L. Fisher
278 Ashby Bladen
279 Mark Hulbert

MONEY & INVESTMENTS

29 What's Ahead For Business
30 The Forbes Index
271 The Forbes/Wilshire 5000 Review

FACES BEHIND THE FIGURES

120 **Ian Martin,** *Grand Metropolitan*
120 **Robert Knoll,** *Car tester*
121 **Jay Rosenfield,** *Reese Communications*
121 **Edward Katz,** *Choice Courier*

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1988 Fund Ratings

The index to tables is on page 123.

BUYER'S GUIDE

24 Searching For Yield
By William Baldwin
Everyone wants yield. But do they know what they are looking for?

26 Full Disclosure
By Laura R. Walbert
A revolutionary idea: Funds tell you the truth about their costs and their performance.

34 Risk And Reward
By Mark Hulbert
Don't look at a market-beating performance without looking at the risk that was taken to produce it.

166 How To Pick A Mutual Fund
By Laura R. Walbert
Guide to the FORBES ratings.

250 Distributor Table
Fund telephone and address listings.

EQUITY

128 Technology
By John Heins
A lesson from Richard Coons of Alliance Technology Fund.

136 Unit Investment Trusts
By Jonathan Clements
A great idea for municipal bonds becomes a not so great idea for equities.

140 Index Funds
By Kathy Murray
Seems that managers are missing the whole point about low costs.

158 Closed-End Funds
By William Baldwin
The only way to get a piece of one of the best fund managers of all.

168 The FORBES Honor Roll
This year, 19 make the grade.

172 Stock Fund Table

206 Balanced Fund Table

SPECIAL SITUATIONS

130 Commodity Funds
By Ronit Addis
Are they a good hedge? A good buy? We track down a group of funds that were taking money in 1985.

138 Leveraged Buyout Funds
By Jason Zweig
An intriguing idea, but maybe not always worth the price of admission.

TAXES

147 Tax Angles
By Laura Saunders
Phantom taxes, loss carryforwards and the foreign tax credit.

148 Municipal Lease Funds
By Edward F. Cone
A short-term tax-free fund can get some extra yield, albeit with extra risk, by buying leases.

152 One-State Muni Funds
By Eric Schmuckler
Sometimes you're better off buying something else and paying the taxes.

230 Municipal Bond Fund Table

INTERNATIONAL

162 London On Sale
By Peter Fuhrman
Lots of U.K. trusts trade at a discount, but here's one that, under the circumstances, is way too cheap.

163 Far East Funds
By Richard Phalon
Some of the hottest-performing U.S. funds invest in Japan. But it may be too late to get in now.

210 Foreign Fund Table

FIXED INCOME

218 Bond Fund Table

240 Money Market Fund Table

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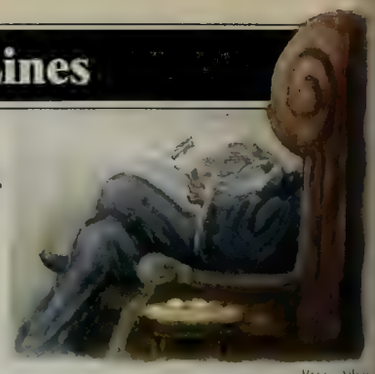

Imitated but not equaled

Nearly a third of a century ago, long before Wall Street began to take mutual funds seriously, Forbes published its first annual fund survey. Before that, mutual fund investors had no place to turn except to a couple of rather obscure handbooks—and the salesman's promises. Strange to say, a good many mutual fund managers, especially those whose funds showed up poorly, objected vehemently. They claimed that investment comparison was too arcane for the average investor. Objections or no, we started something. Today every financial publication in the land "rates" mutual funds.

For all our imitators, the Forbes mutual fund survey remains unique. It consists of more than raw numbers, figured point-to-point. Going beyond statistics, our system contains a strong judgmental factor, based on the magazine's long experience in the field. This judgment is expressed in a rating system, A+ to F. All this is explained in the survey that starts on page 123. Edited by William Baldwin, this year's edition represents the efforts of a team that includes statistics editors Steve Kichen, Don Popp and Ann Oliver, fund coordinator Tina Russo and a large group of programmers and data collectors.

A new kind of fertilizer: money

The drought isn't the only thing worrying livestock farmers. Some very smart and well-heeled people are moving into beef- and hog-raising who have figured how to take advantage of economies of scale in what has been a fragmented business. When we tell you the new meat raisers include the billionaire Bass brothers, you'll understand why the ordinary livestock farmer is alarmed and hopping mad. Original reporting by Phyllis Berman and Dana Wechsler, "Calling all hogs," page 42.

Ted Turner's last laugh

Seems only yesterday that the wiseacres were writing off Ted Turner. Hadn't he overpaid for those old MGM movies? Wasn't he having trouble meeting the interest payments on all those Drexel junk bonds? Hadn't he lost control of his own network? In "He's a constitutional monarch now," Subrata Chakravarty explains how Turner managed his setbacks. Yes, he has partners now. But Turner still calls the tune. Starts on page 34.

Flint on Ford

Jerry Flint spent 21 years covering the auto industry for the *New York Times* and the *Wall Street Journal* prior to joining Forbes 9 years ago; he is one of the shrewdest and most experienced observers of the Detroit auto scene. (In a Forbes article in 1980, he bravely said that Chrysler, then almost unanimously written off for dead, had a good chance of survival.) Looking ahead again, Flint predicts that Ford's new Thunderbird will continue the solid line of successes that the number two automaker has enjoyed the past few years. With product like this, he says, Ford Motor should continue on a roll for some time to come. "Supercharged," written with Steve Kichen, page 74.

James W. Michaels
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Follow-Through

Brian Smale

Obsolete no more

July 1, 1985

Inco Ltd., the Canadian mining empire, seemed like an impoverished aristocrat three years ago. Sales had fallen by half, to $1.5 billion, over four years, and earnings had dwindled to practically nothing. Inco was a shrinking kingdom, we wrote, a company that would soon be obsolete.

We were wrong. In 1987 Inco earned $125 million on sales of $1.8 billion. This year it could earn some $659 million on sales of $3.1 billion.

Inco has been helped by short supplies of metals like nickel, whose price has more than doubled in 18 months. But new mining technology, a management and labor retraining program and vigorous cost-cutting have also helped. Inco has managed to cut production costs in half, with the result that even if prices fell back to earlier levels, the company would still be profitable.—**Alyssa A. Lappen**

Rick Grant Tuss

Mass storage equals profits

Nov. 30, 1987

In 1984, nine years after computer startup Masstor Systems went into business providing storage capacity for mainframes, the company had yet to show a profit. Why? It had ignored marketing and cost controls, focusing almost entirely on engineering. Then the board brought in David Addison as chairman to turn Masstor around. By late 1986 profits had begun to trickle in. Masstor had survived, Forbes noted, but we wondered if Addison could make the firm thrive.

He could and he has. Under Addison, Masstor has lowered the cost of its mainframe data storage systems by an astounding 51%, with the result that Masstor can now price its systems at [illegible] the price for conventional IBM hard disks. A 16% sales surge helped Masstor finish 1987 firmly in the black on revenues of $38.5 million. This year, sales for the first half are 40% above the level of the same 1987 period and net margins are 8.7%, 40% better than the computer industry average. One underestimates David Addison at one's peril.—**A.A.L.**

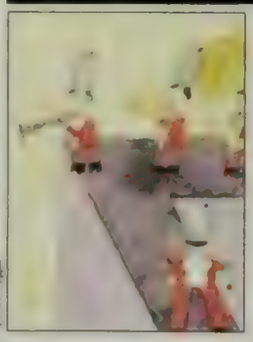
James Schnepf/Wheeler Pictures

Monkey wrench at Snap-on

June 27, 1988

A company that relies on dealers had better keep them happy. So said Forbes when we wrote that Snap-on Tools Corp., the nation's largest manufacturer of premium mechanics tools, was facing proliferating lawsuits by current and former Snap-on dealers. The suits charged everything from misrepresenting the size of sales territories to dumping unwanted promotional tools on dealers.

Things have gone from bad to worse. More suits have been filed against Snap-on, and the Federal Trade Commission has opened a probe into its dealership practices. The company says it expects to be cleared of any potential charges. Perhaps, someday. For now, San Francisco lawyer Charles E.C. Harris, who represents many plaintiffs, says more cases are to come.—**Deirdre Fanning**



John Segal

Bad news bonds

Dec. 28, 1987

Apr. 18, 1988

Forbes has twice reported that Bear, Stearns, which had underwritten or comanaged at least $2.4 billion worth of junk tax-exempt bonds, was quietly exiting the business because some of the bonds were about to go bad.

Now some of those bonds have defaulted. On Aug. 1 Bear, Stearns' institutional clients were notified that 13 bonds underwritten or comanaged by Bear, Stearns, or placed in the firm's high-yield municipal bond trusts, have defaulted or are about to. Institutional clients aren't the only ones at risk. Many of these bonds—face value of $75.5 million—were placed in 13 municipal trusts underwritten by Bear, Stearns and sold to the public in 1985, 1986 and 1987. Nine of these 13 trust portfolios are now experiencing bankruptcy, default or debt-service failures. The August notices from the firm reported that nearly 14% of its Municipal Securities Trust High Income Series 1 portfolio is in trouble, as is 15% of the Series 2 portfolio and 20.8% of Series 3.

The bonds were underwritten to fund such projects as drug detox centers, hotels and shopping malls. But all had one thing in common: None produced revenues sufficient to service their debt.—**Gretchen Morgenson**

Terry Parke

Banking's George Patton

Jan. 25, 1988

Charlotte, N.C.'s NCNB Corp. last year was the bank everyone loved to hate. The brashness of Chairman Hugh McColl, whom Forbes dubbed the George Patton of banking, had cost him mergers with several leading southern banks. But so what? we asked. By buying second-tier banks in need of restructuring, McColl had doubled NCNB in five years, making it the largest bank in the Southeast and 16th largest nationwide. We predicted that McColl would go on succeeding where others failed.

McColl has indeed continued his successful drive. Out of a field of several "spirited" bidders, the Federal Deposit Insurance Corp. last month agreed to sell a 20% stake in Texas' troubled First RepublicBank to NCNB for up to $240 million. This in effect puts McColl in charge of collecting around $5 billion in bad First Republic loans. If McColl manages to turn First Republic around, NCNB will probably exercise its exclusive option to buy the FDIC's 80% of First RepublicBank, swelling its size still more.

McColl and his lieutenants are active on other fronts, too. "We have no conversations or negotiations at the moment," says NCNB Senior Vice President Russell Page. "But the bank is very interested in having a major presence in Atlanta, Nashville and Virginia," he adds. —**Robert T. Grieves**

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Edited by Gretchen Morgenson

Charles Thatcher

Donald Zale, formerly of Zale Corp.
Must his consent decree live on?

Don's decree

Why are consent decrees like diamonds? Donald Zale, former chief executive of jeweler Zale Corp., will tell you: because they are forever. Way back in the summer of 1977 Donald Zale, his brother Marvin and several other top Zale executives signed a consent decree with the Securities & Exchange Commission in connection with alleged securities fraud. The SEC charged that for some 16 years the Zale brothers maintained an off-the-books cash account used to reimburse top management for political contributions and to compensate foreign employees in possible violation of foreign tax laws. The Zales signed the consent decree, without admitting or denying guilt, in August 1977, and were enjoined from future securities law violations. Two years ago the brothers sold their company to a Canadian outfit.

Now comes Donald Zale, petitioning the federal courts to cancel the consent decree. Why? Because it hinders his earning power. Seems that every time he gets close to landing a directorship on a public company's board, that darn decree rears its ugly head and he gets turned down.

Alas, the judge denied his request to cancel the decree. Don Zale will have to live with this blemish. But not in total poverty: He received close to $2 million when the company was sold, and he contracted to provide up to 100 hours of consulting services for the company each year until 1991. His fee: $300,000 a year.

Who'll win PTL?

George Shinn is a big man on campus in Charlotte, N.C. He runs Rutledge Education System, a private chain of proprietary business schools, owns the Hornets, an NBA expansion team, and the Orioles, a Double A baseball team. Now he could get even bigger: He's offering $100 million for the real estate from Jim and Tammy Bakker's bankrupt PTL ministry.

The ministry itself is hemorrhaging money: operating expenses run $65,000 a day and the satellite network is losing 10,000 subscribers a week. But Shinn's no televangelist. If his bid succeeds, he plans to develop PTL's 2,200-acre Heritage USA theme park, transforming it into a convention facility.

But Shinn isn't the only one after PTL. The surprise bidder? None other than Jim Bakker, the former minister whose financial self-dealings helped bring PTL down last year. He says he'll offer $125 million in cash to get his ministry back, claiming to have the necessary backing from Greek shipping interests.

Still, the odds-on favorite is local boy Shinn. Unlike Bakker and other bidders, Shinn hasn't been asked by the trustee to put up earnest money to support his bid.

Drillers come to life

Oil and gas exploration in the Southwest has been almost dead since the early 1980s, but signs of a comeback are evident. Consider the growth in oil and gas financing handled by Prudential Capital, a merchant banking subsidiary of Prudential Insurance. Folks at the Pru say they've done $450 million in oil and gas private placements in the past year.

Laura Cornell

This financing spurt, for the most part, has gone to oil and gas producers and pipeline companies with revenues of $50 million to $250 million. Ironically, just as these firms find business—and the need for capital—picking up, the local banks are in such bad shape that they can't do much new lending. The excesses of the past are back to haunt the Texas recovery, but Matthew Chanin, a senior vice president at Prudential, says his company will be more than happy to defy the ghosts and put money in.

Is the party over?

High-flying Weintraub Entertainment Group is losing altitude by the day. Many executives of the Los Angeles-based movie company have had their subscriptions to the *New York Times* and *Los Angeles Times* canceled; free packages of microwaveable popcorn are no longer offered to staffers; office refrigerators no longer stock free juice. The reason for the new austerity? Could be a glitch in the company's line of credit. At the end of July the company's principal lender, Bank of America, informed Weintraub it would not renew his current credit line (which had a maximum of $145 million) unless he paid considerably more for considerably less. The reason? Apparently, the bank was nervous about Weintraub's spending.

Weintraub is now negotiating with Crédit Lyonnais, one of the highest-priced lenders around, for a $100 million credit line. Even more bad news may be ahead: *Big Blue*, Weintraub's first release, got panned in Cannes and few are optimistic about its prospects.—**Lisa Gubernick**

End of the Lion

Not all of Penn State's fastest moves are on the football field. Each Nittany Lions home game drops a million bucks in university coffers, so it's no surprise the school wants to increase the home schedule to seven games. Some schools agreed to give up alternating home games, but Syracuse University balked at State's request for six home games in the next ten-game contract. So the Lions dumped Syracuse, ending a 66-year tradition.

Syracuse fans, for whom Penn State is *the* big game, are aghast. "It makes a mockery of eastern football," fumes S.U. Athletic Director Jake Crouthamel. But Penn State, which uses football receipts to support its entire athletic program, insists that money is money. —**Eric Schmuckler**

Why you deal with Victor

Victor Posner, the once-feared corporate predator, has been bagged again—this time by Carl Lindner, ostensibly his friend and ally.

Two years ago, when Lindner lent Posner's DWG Corp. $55 million to refinance past-due debt, he extracted

DWG warrants equal to 20% of the company on a fully diluted basis. With DWG returned to a semblance of health, Lindner got his vigorish: He traded the warrants for a $5 million note and 2,127,900 shares of Burnup & Sims, a beverage company that had been battling Posner for years, valued at $14.75 a share.

Lindner promptly sold the stock to B&S at $15—every 25 cents helps. Value the note at par, the stock at $15 and count the 25-cent-a-share profit Lindner made on B&S stock bought from another Posner company, and the warrants cashed out at $37.2 million—68% of the loan amount. This doesn't count Lindner's sale of 933,032 DWG shares to the company for an $8 million note—a premium price. Deals like that, fans, are how Lindner lands near the top of The Forbes Four Hundred.—**Allan Sloan**

Out-Foxed

Where is Rupert Murdoch getting the $3 billion he has reportedly agreed to pay for Triangle Publications? Part of the money comes from outsmarting, of all people, the sharp Marvin Davis.

When Davis sold Fox Film to Murdoch a few years back, a partnership

Jeff Slocomb Outline

Hollywood big Marvin Davis
Leaving money on his plate.

he leads retained a 50% interest in the Fox Plaza office building in Los Angeles, the setting for Fox' hit *Die Hard*. The partners had a buy/sell deal, meaning that if one offered to buy the building from the other, the other could buy out the first at the same price. About a year ago Davis offered to buy Murdoch's piece for $125 million. Murdoch said he'd rather buy than sell, and bought out Davis.

Two months ago Murdoch sold the building for $320 million. That means Davis missed out on $35 million of gravy—and Murdoch got a small part of the down payment he'll need for Triangle.—**E.S.**

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Golden quarter ... Propelled by sharp gains in Marketing & Refining and record results in our chemical business, Mobil Corp. **earnings jumped 60%** in the second quarter compared with a year ago. Earnings climbed to $487 million, or $1.18 a share, on a 16% increase in revenues. Though Exploration & Producing results were depressed by lower crude oil prices, the division was still a big money-maker, contributing some $227 million to the bottom line. "Crude prices remain volatile," said Mobil Chairman and CEO Allen E. Murray, "but the **improving outlook** in other areas of our business, bolstered by higher efficiency companywide, are strong pluses for 1988."

Shining results ... Better overall margins, plus increased sales of premium lubricants and gasoline, gave a strong boost to the **Marketing & Refining** division. In the U.S., profits rose more than fivefold to $89 million, while overseas **earnings more than doubled** to $171 million from prior year lows—with the largest gains occurring in Europe and Japan despite intense competition.

Bright chemistry... **Chemical earnings** jumped to a **record $160 million**—more than twice as high as the previous year, which also was a pacesetter. The reasons: higher margins for our U.S. and Saudi petrochemical production—with an added boost from new capacity we acquired recently—and strong demand for our fabricated products like Hefty® bags and industrial packaging film.

Glowing reports ... That's what Mobil has gotten from a number of Wall Street analysts recently. "Mobil is showing **operating strength in all segments,**" W.E. Higgins says in the July 8 issue of Value Line. He adds that our "improved asset base will give the shares **staying power into the early '90s.**" Says Joel Beck in a recent Argus Research Corp. report: "Mobil has **positioned itself for growth in earnings** over the longer term" by increasing its exploration emphasis on potentially big payoff areas and phased development of enhanced oil recovery projects. And James L. Van Alen of Janney Montgomery Scott describes Mobil management as "strong and dedicated to the **improvement of operating divisions** through capital spending, research and improved efficiency."

It's a fact: Both Moody's and Standard & Poor's recently upgraded the senior debt ratings of Mobil Corp.

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Readers Say

Duking it out

SIR: You provide a forum for Governor Dukakis to change his stripes to a middle-road stance without once asking how he plans to resolve his well-known differences with Senator Bentsen *(Fact and Comment, Aug. 8)*. This would have interested me much more than the Governor's football expertise. Possibly you would be just as nimble if you lived in "Taxachusetts," where convicted killers are allowed to roam the streets on weekends. You and Junior should use your penchant for hot air ballooning activities rather than for political analysis.
—James G. McCarrell
Colts Neck, N.J.

SIR: Mike Dukakis certainly gave you a snow job. Genial he is, but politically honest—never.
—Eugene W. Clapp II
Weston, Mass.

Glen Davis

MSF with Governor Dukakis

SIR: A cream-puff interview. Where were the tough probes of his big government and high-tax track record? He is an opportunistic statist who will take us back to the policies of Carter-Johnson-Kennedy, etc. The only thing missing was, "This is a paid political advertisement."
—David J. Culbertson
New Canaan, Conn.

SIR: I am saddened to find you warming to Michael Dukakis. Here is the embodiment of all that you have been preaching as wrong with our politicians. A master of disguise, as evidenced by his choice of vice president and the degree to which he has managed to hide his true beliefs.
—Brian P. Mahoubi
Washington, D.C.

SIR: Your and Steve's interview with Governor Dukakis was a coup. Nowhere else have I seen as clear and specific an enunciation of his proposed policies. FORBES continues to lead the pack in pungency and power.
—David Brown
New York, N.Y.

SIR: I enjoyed our meeting and the opportunity to get together with people like you and Steve.
—Michael S. Dukakis
Governor,
The Commonwealth of Massachusetts
Boston, Mass.

SIR: I do not think you two are naive enough to agree with Governor Dukakis. If you do, then change the name of your plane to The Socialist Tool.
—Ivan J. Miller
Fort Worth, Tex.

Come again?

SIR: Re your editorial on Dukakis *(Fact and Comment, Aug. 8)*. "We'd never met the Democratic presidential candidate before. . . ." Would you agree the "before" is redundant? I'm tempted to bring this to William Safire's attention.
—Christine C. Wilder
Bay Head, N.J.

Good vibrations

SIR: Re your editorial on the Army's policy of keeping soldiers in the same outfit through enlistment *(Aug. 8)*. We are confident that the Army's efforts to reinstate a historic tradition will have positive effects on morale and retention.
—Frank Carlucci
Secretary of Defense
Washington, D.C.

Real solutions

SIR: Re Steve's editorial "Perestroika for the Pentagon" *(Fact and Comment II, July 25)*. We are already working along similar lines; however, I tend toward the David Packard solution rather than Edward Luttwak's. Luttwak, though always stimulating, tends to focus on the uniformed component of problems. Packard recognizes that we are overstaffed in both civilian and uniformed branches of the acquisition process.

In the weeks ahead, I will be ad-

dressing this issue directly. Please be assured that we will be looking for real solutions.
—George Bush
The Vice President
Washington, D.C.

McInnocent

SIR: Re your editorial on the infringement of the McDonald's "Mc" trademark *(Fact and Comment, Aug. 22)*. I fully concur. Interestingly, and rightfully so, McDonald's won its case.
—Roberto C. Goizueta
Chief Executive Officer,
The Coca-Cola Co.
Atlanta, Ga.

Catch the wave

SIR: Your article "An impossible dream?" *(July 25)* attaches little, if any, value to the dynamic for change unleashed by the 1985 White Paper and the extent to which its aspirations for a unified Common Market have become part of the expectations of individuals, enterprises and governments in the EC. If the White Paper is based on any hope, it is that an internal market will create opportunities to counterbalance displacement of existing relationships. This hope is driving the unification process.
—Jay A. Cohen
President,
The Forward Group
Philadelphia, Pa.

SIR: I take issue with your statement that the Community's White Paper is mostly "silent on introducing competition into . . . government procurement" and, in particular, the statement that "crucial sectors—energy, transportation, water supply and telecommunications—have been exempted from 1992 tampering." The EC Commission expressly stated its intention to submit proposals dealing with the four. The Commission is in the final stages of drafting a proposal dealing with public procurement in the telecommunications sector. Proposals dealing with the above-mentioned sectors are slated to be published sometime in 1989.
—Paul Allaer
Attorney,
Smith & Schnacke
Cincinnati, Ohio

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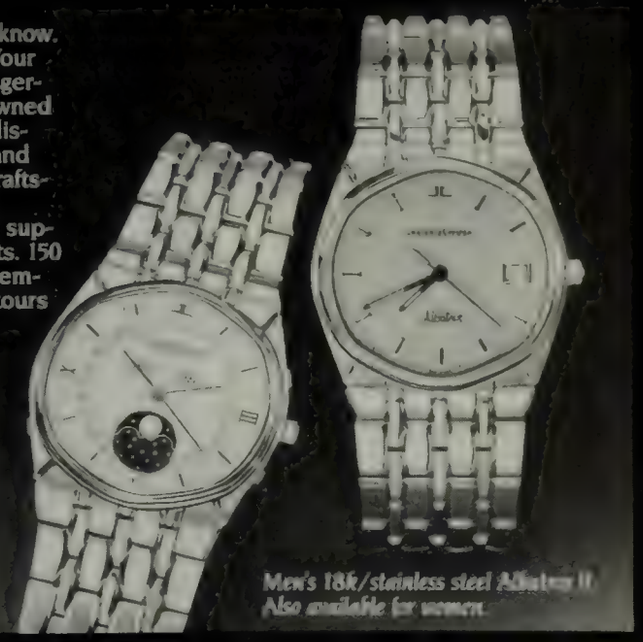

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

WE DON'T THINK GREENSPAN'S UPPING OF THE INTEREST RATE

will be as damagingly constrictive as the markets' initial reactions suggest.

Nor do we think the threat of inflation is so imminent as to warrant the risk to our economy that any more such actions could produce.

WE NOW HAVE TO PAY A PRICE FOR HAVING BEEN FIRST

Forty years ago we were first off the mark with television on a national scale. But the pioneering picture we sent and still see on our sets is not as sharply well-defined as the two improved picture systems that became the standard a while later in Europe and elsewhere.

Today there have been such extraordinary high-tech breakthroughs that HDTV (high-definition television) reproduces pictures that are totally true to reality, about four times better than what we look at now.

But there's a huge rub to getting them onto our screens. Reports *Video* magazine: "It's been estimated that in the U.S. alone the cost of replacing current broadcasting equipment, plus some 140 million TVs, with high-definition equipment would surpass the national debt."

There are a number of considerably improved systems that would much improve pictures on new sets and yet be compatible with current ones. Japan is planning one such for 1990.

But none of them are in the league with the Big Step. As *Video*'s contributing editor Bob Angus points out, "At stake are billions of dollars in equipment sales. Last year, for example, Americans spent $6.9 billion (at factory wholesale prices) for TVs and $5.25 billion for VCRs and videodisc players. The figures for Europe are comparable. With that much money at stake, it's no wonder that the major players on three continents want to get the jump on each other to secure the rich licensing and manufacturing deals."

One thing's for sure, the U.S.A. is not going to stay years longer with its present "Model T" TV.

WHERE TODAY'S M.B.A. HEADS ARE AT

Be of good heart.

This year's crop of graduates from ten of our topmost business schools, it seems, are a sensible lot.

The lust for money is not number one on their list. The other things that most make life worth living are way ahead on their priorities list of personal and career goals.

Number one is Family (developing close family relationships), tied with Health (physical and mental soundness), followed closely by Ethics (having strong moral principles) and Leisure (enjoying life beyond work). Leadership (inspiring and motivating others) is up with the front-runner goals. Even Expertise (a recognized expert in my field) is ahead of Wealth (acquiring financial independence), which is tied with Service (contributing to others). Power (ordering and directing others) is at the bottom.

There's more to feel happy and hopeful about in the results of this University of Pittsburgh, Joseph M. Katz Graduate School of Business survey of 1988's M.B.A.ers—more aim to make their mark in industrial manufacturing, consulting and in consumer goods than in investment banking.

What their job will be matters far more than salary or benefits. Where they will work and the status of the companies for which they work is more important than either the status or security of their own job.

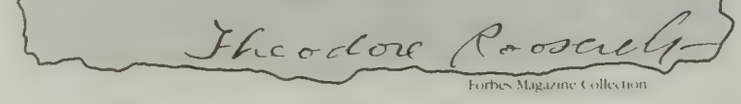
And the long-term goal of nearly two-thirds of these highly motivated, likely future business leaders is to be independent entrepreneurs.

That period when greed seemed to be the greatest greaser of our economy is over.

The upcomers in American business no longer think money at any cost is worth the price.

HOW WOULD YOU LIKE TO HAVE BEEN TR'S AMBASSADOR TO COLOMBIA?

Can you imagine either of our presidential hopefuls handling two potentially explosive topics with the extraordinary candor that Theodore Roosevelt displays in this fascinating letter written to a newspaper reporter 77 years ago? Not too long after Teddy was putting down reporters in regard to his phone number as well as slapping down Colombia, he was again running for President, on the Bull Moose ticket.


interest in what Columbia says than this same United States marshall would have in such articles by the train robber.

Sincerely yours,

Theodore Roosevelt

Forbes Magazine Collection

"My dear Mr. Funnell:

"I hate to say No, but if I gave you my call number I could not refuse to give it to every other newspaper. I have had to make an invariable rule that I will not talk over the telephone to any newspaper. I am sure you will understand that if I did it in one case I could not refuse to do it in others. As for the attack on me by the Consul of Colombia, it is so preposterous that I really cannot understand anyone being even interested in it. When I took Panama I did not expect Colombia to like my doing it any more than a United States marshall would expect a train robber to enjoy being captured, and I have not a particle more interest in what Colombia says than this same United States marshall would have in such articles by the train robber.

Sincerely yours,

Theodore Roosevelt"

CHOCOLATE'S AS GOOD FOR YOU AS APPLES

You may never have heard of David Kritchevsky, Associate Director of the Wistar Institute of Anatomy and Biology in Philadelphia, but rejoice in him for he's the bearer of great tidings.

At least his laboratory rats are.

Dr. Kritchevsky discovered that among the multiple saturated fats he fed those little dears, the two that figure most heavily in chocolate—stearic acid and palmitic acid—"affected cholesterol levels the least."

Salivated Richard O'Connell, president of the Chocolate Manufacturers Association of America, "When it comes to nutrient comparison, milk chocolate compares favorably with many snacks, including apples."

Any rat who would quarrel with such a sweet laboratory finding should be dropped in a boiling vat of you know what.

RESTAURANTS—GO, [illegible], STOP

● **Adrienne**—700 Fifth Ave., at 55th St. (Tel: 903-3918). The man responsible for New York's first Three-Star hotel restaurant, *Maurice* (the Parker Meridien Hotel), Robert Bergé, has now wrought Three Stars at Hotel Maxim's de Paris on Fifth. In a handsome mezzanine overlooking New York's plushest shopping promenade, you can savor a splendid Mediterranean French menu and top off with desserts of the sort you'd expect in paradise.

● **Shinwa**—645 Fifth Ave., at 51st St. (644-7400). In the Olympic Tower's waterfalling foyer, this very Japanese restaurant's patronized by many Japanese. They must discern something about the dishes that wasn't much apparent to us. I ain't remotely in the same league as *Nippon*.

● **Metro**—23 East 74th St. (Tel: 249-3030). That extraordinary creative pioneer of deliciously different restaurants (*Odeon, Cafe Luxembourg*), Patrick Clark, has done it again in the heart of Big Apple Poshland. All the Dressed Up ones are swarming this cool upscale hotspot.

● **Manhattan Island**—482 West 43rd St. (Tel: 967-[illegible]). In this terraced setting that looks into a splashing health club, good intentions unfortunately don't result in [illegible] dishes good enough.

● **The Ocean Reef Grille**—11 Fulton St., South Street Seaport (608-7400). From this airy and spacious [illegible] in the Fulton Market building, you have a lovely view of the attractive, lively, restored South Street Seaport. The predominantly seafood dishes are, of course, most fresh. I don't quite know why, but somehow a ● comes to mind more than a ●. If you're South Street Seaporting, see what you think.

● **Anabelle's**—1294 Third Ave., near 74th St. (Tel: 772-8100). There are many discerningly judgmental eaters, including son Kip, who feel this brightly attractive, Frenchish, new East Side restaurant is an instant Three-Star. I'm not yet convinced it's that good, but for sure it's good.

● **The Gotham Bar and Grill**—12 East 12th St. (Tel: 620-4020). After a spectacular beginning, followed by more downs than ups, this spaciously gracious restaurant has settled down very Up.

● **Bellevues**—496 Ninth Ave., near 38th St. (Tel: 967-7855). Opened by those responsible for that lively, off-beat, hip *Florent*, this effort lacks the same warm spontaneity. O.K., but nothing special.

● **Carnegie Deli**—854 Seventh Ave., at 55th St. (Tel: 757-2245). The Carnegie Deli has long had a fame that is of near mythical proportions. So, too, its towering (literally) sandwiches. Elbow to elbow at shared tables, this hustling, bustling place is an absolute must for everyone who wants to say he has seen the faces and facets of New York.

HEY, WE OLDER ONES ARE WHERE IT'S AT!

While maybe I would be happier to be turning 49 or 59 instead of 69 this week, here are some facts that indicate that those in their 50s and 60s can, both statistically, as well as in feelings, be increasingly considered middle-aged.

Reports *Advertising Age* on the findings of Ken Dychtwald, president of Age Wave, a consulting firm specializing in the coming senior boom:

"Two hundred years ago, the median age was 17. Babies born in the year 2000 routinely will live into their 90s.

"Older people consistently feel 10 to 15 years younger than their age.

"The number of people over age 65 in the U.S. exceeds the entire population of Canada.

"People over age 50 own 80% of all money in savings and loans, 77% of the country's financial assets, or, taken altogether, 70% of the total net worth of U.S. households—nearly $7 trillion.

"Of all the people who have lived to age 65 in the history of the world, more than half are alive today.

"Eighty-five percent of people over age 65 do not work, and only 20% have financial troubles.

"Older people have more money, more leisure time and more needs that have yet to be addressed than their 18-to-49-year-old counterparts. Said Mr. Dychtwald, 'The era of America as a youth culture is coming to an end, and it will not reappear in our lifetime.' The ad industry never learned how to address old people, 'because throughout human history, we didn't *have* old people.' "

ONE OF THE JOYS OF BEING OLDER IS GRANDCHILDREN

Cynics old and young are fond of saying there's nothing to be said for growing old except the alternative. And quite often it's suggested that even the alternative is preferable. As usual, cynics see the glass half empty. But getting older gets its own rewards. Like grandchildren.

As I know from seven of our own, the joy of them is unleavened by the parental necessity of incessant nay-saying, carting, feeding and fussing. No matter what their age you can treat grandchildren as people you love, not people you're totally responsible for raising. It's an inestimable advantage to hear and to grant, to sympathize and empathize with them.

President Nixon on his seventy-fifth birthday, with Jennie (9), Melanie (3), and Alex (7) Eisenhower and Christopher Cox (8)

At Saddle River, New Jersey, January 9, 1988

Of course, you've paid your dues. All the mistakes you made with your kids you can avoid with your kids' kids.

All these happy thoughts were triggered when we received this happy card from another grandfather who hasn't always had occasions in his lifetime to beam the way his grandchildren cause him to.

NEVER ACKNOWLEDGE
and you won't be.

DO NAUGHT
and you'll be.

BOOKS

Challenged by another male, a lion battles for his mate. As the two fight, a third male appears, attacks and bites the skull of the first challenger

● **Serengeti**—by Mitsuaki Iwago (Chronicle Books, $30). In Africa's Tanzania, an area the size of Connecticut is known by its Masai inhabitants as the Serengeti—"endless plain." It's the most extraordinary wild animal preserve on the globe, with millions of zebras, gazelles, wildebeests and giraffes. Around these herds "hyenas and lions lurk, stalking the calves, but because there are so many young animals, it does not seem as if their number decreases, despite the predators' best efforts. I saw one hyena so stuffed he seemed bored, stepping aside to let the herd pass," writes the author. These are the most colorfully gripping pictures of wildlife I have ever seen.

Introducing The Audi Advantage.

No one has ever tried it before. But for Audi, it is the logical next step in luxury cars.

It's called the Audi Advantage. And quite simply, it redefines the risks of ownership.

How? With exclusive protection no other car maker can match. Designed to provide security for you and your Audi from delivery to trade-in.

For example, for the first three years or 50,000 miles, the no-charge maintenance and limited warranty of the Audi Advantage* means all repairs, all scheduled maintenance, all routine oil changes are all paid for. The wheel alignments, the brake pads, the wiper blades, you name it. Even normal wear-and-tear is covered, except for tires and soft trim, of course.

In short, it pays for virtually everything but gasoline.

(An owner still has a few responsibilities, after all; so the some inevitable fine print about negligence and accident

The Audi Advantage also offers 24-Hour Roadside A tance. A full decade of corrosion protection. And welcom security at trade-in time. Thanks to a Guaranteed Resale Index that certifies trade-in value.

It is, in total, a better way to own a car. But it would be possible had not Audi created a better car to own. Th new 100/200 Series. This is no mere restyling. This is rethinking from the inside out. The result? Over 1500 design improvements.

The permanent all-wheel drive Quattro system, for instance, has evolved to its second generation; a torque-sensing differential provides more consistent control, eve under inconsistent conditions. The powerful four-wheel disc brakes have been finessed and combined with ABS

Lock Braking), to stop with quiet authority. And for her performance, the sophisticated electronic fuel injec- as been retooled and recrafted.

Outside, the Audi shape, already an aerodynamic mark, is an even sleeker piece of efficient elegance. lush door handles and new aero wheels.

nside, intelligent details and luxurious touches abound. no wood defines the driver's environment. A self- sing system monitors 13 te functions. An anti-theft is standard. So is the of. There's even a private hone jack for rear-seat ngers. Everything has adapted, adjusted and arranged to heighten driver control and reduce driver stress.

This is luxury based on logic. And only the driver's seat can do it true justice. So arrange for a test drive.

And remember, all new Audis, from the 80/90 Sports Sedans to the dramatic 100/200 Series, are equipped with the Audi Advantage.

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Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Much Ado

Congress is so strange. A man gets up to speak and says nothing. Nobody listens—and then everybody disagrees.

—Russian-born actor Boris Marshalov in *Too Funny to be President*

Skin-deep News

Lord, what I would give to see a mature woman delivering the six o'clock news! Sometimes I think if I see another silken-haired beauty queen with capped teeth and wet lips wrapped around the failing economy, I'll scream.

—Erma Bombeck, *Family—The Ties that Bind . . . and Gag!*

Dead Bird

Captain Lawrence Haskell, a 33-year-old pilot, was on his first training sortie in one of the Strategic Air Command's new B-1B bombers. The B-1B, which costs $280 million, has 5,000 pounds of electronic war-fighting gear and is supposed to be able to fool Soviet air-defense radars and elude interceptors by skimming a few hundred feet above the ground at nearly the speed of sound. Haskell saw a "white blur" just before hearing "a significant bang." The airplane shuddered. "I heard Major Acklin say words to the effect of 'Crew, I've lost control,' " Haskell recalled. "And then a single word, 'Eject.' " The B-1B crashed because it hit a bird.

The Bird Aircraft Strike Hazard team surveyed the area and reported seeing hundreds of turkey-size birds—American white pelicans at a reservoir near the crash site. An Air Force spokesman said that he resented editorials questioning how well the B-1B could stand up to the Siberian snow goose; the American white pelican is a much larger bird, he noted.

—*The New Yorker*

In the Prime of Life

I'm a very fit man. I walk my dog every day. I don't have to wear spectacles. I still have my own teeth. Why should I marry some dried-up old bag?

—The Marquess of Huntly, January 1977, announcing his engagement, at 68, to a 20-year-old nurse.

—*Their Noble Lordships*, by Simon Winchester

U.S. TVs to Japan

The people of Forrest City, Ark. are today engaged in a breathtaking venture: They are manufacturing luxury color television sets with 37-inch screens—and exporting them to Japan. There are a couple of catches, of course. The TV sets are Sanyos, designed in Japan. The work force earns an average of $7.27 an hour.

This is a good wage in the depressed Arkansas delta. It is also $3 per hour less than an assembly-line TV worker would earn in Japan. Sanyo has looked around for a reliable, cheap, high-quality work force and found it in America. Let's hear no more talk about cheap Oriental labor; we are now the land of bargain wages.

Sony has begun exporting TV picture tubes, a precision product, from an American-manned plant in San Diego. Honda has announced plans to export automobiles back to Japan from Ohio. Hitachi will export computer disc-drives to Japan from a U.S. plant.

"So far it's just a trickle," says Rudy Oswald, an economist at the AFL-CIO. "But it's an indication that in terms of price and quality, U.S.-made goods can be either better or comparable to anything the Japanese are making."

—Lars-Erik Nelson, *Daily News*

"If you hurry, you might still make this Sunday's Times *obits."*

Drawing by Levin, © 1988 The New Yorker Magazine, Inc.

How can I die when I'm booked?

—George Burns, who says he's committed to play London's Palladium when he's 100, *Brown's Guide to Growing Gray*, by David Brown

Pool Balloon

All you have to do to choose a maternity swimsuit is to decide which one looks least like something Malcolm Forbes would use to fly over the wine country of France. No one expects you to look good at the pool; they just expect you to float.

—columnist Anna Quindlen, *New York Times*

Challenges

People who thought of my journey as a physical ordeal or an act of courage, like single-handed yachting, missed the point. Courage and physical endurance were no more than useful items of equipment for me, like facility with languages or immunity to hepatitis. The goal was comprehension, and the only way to comprehend the world was by making myself vulnerable to it so that it could change me. The challenge was to lay myself open to everybody and everything that came my way. The prize was to change and grow big enough to feel one with the whole world.

—Ted Simon, *Jupiter's Travels*

Hope at 85

Eighty-five is getting up in the middle of the night as often as Burt Reynolds but not for the same reason.

—Bob Hope, commenting on reaching age 85, *Newsday*

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

THE MOST IMMEDIATE THREAT

to the expanding economy isn't the budget or trade deficit. It's Alan Greenspan and the Federal Reserve.

Generals are not the only ones who fight the last war. So do some economists, including, apparently, those of the Fed. The central bank is acting as if this were 1968 or 1972 or 1979. Yet we are not experiencing an inflationary boom à la the 1970s or late 1960s. Otherwise, sensitive barometers of inflation, such as the gold price, would be 50% higher than they are today. A realistic look at commodities (FORBES, *Aug. 8, p. 125*) shows no signs of this disease.

Dinosaur economics?

Actually, the recent spurt in prices is attributable almost entirely to the fall of the dollar against major currencies in the past couple of years. The decline made our steel, paper, chemicals, etc. the bargains of the world. Result: booming order books. What is remarkable is how little inflation we do have, given the magnitude of the devaluation.

In addition, food prices are being hurt by the drought.

The solution is self-evident—preserve the integrity of the dollar. Don't bash it the way former Treasury Secretary Baker unnecessarily did last year. As for food prices, there is nothing we can do. Some meteorologists should explain to the central bank that damaging the economy through higher interest rates won't necessarily bring rain to the parched Midwest.

Chairman Greenspan and a number of his colleagues are still influenced by a theory called the Phillips Curve, which argues that there is a tight correlation between inflation and unemployment, i.e., low unemployment means high inflation and vice versa. In short, a vibrant economy causes inflation.

History shows that notion is bunkum. Japan boomed at double-digit growth rates for years with a minimal problem in rising prices. The U.S. itself led the world in economic growth for much of the 1980s while its inflation contracted.

Some day, the Phillips Curve will go the way of the horse cavalry and the battleship-led naval fleet. In the meantime, the financial markets and the economy are in for some unnecessary turbulence.

SECOND COMING?

Environmentalists played a key role in blocking the construction and operation of numerous nuclear power plants. In New York, for instance, Long Island Lighting's $5 billion Shoreham facility is slated to stay idle forever. This attitude may change, however, in the face of growing concerns about the possibility that fossil fuels are depleting the ozone layer, thereby heating up the earth through the so-called greenhouse effect.

Another spur for a second look: Many areas in the country will be hit with power shortages in the next couple of years. The growth in electricity consumption in much of the country is significantly exceeding utility expectations.

Long Island itself should be experiencing brownouts by early 1990, just when Governor Cuomo, who led the charge to mothball Shoreham, may be running for reelection.

GOOD MOVE

FDIC Chairman William Seidman and his agency deserve high praise for a key decision they made in handling the collapse of the First RepublicBank. This time, the bondholders of the bank holding company will not be bailed out as they were at Continental Illinois four years ago. Investors have too often assumed, with reason, that Uncle Sam would pull their chestnuts out of the fire if the paper of a major bank was jeopardized. Now the markets know that there is risk in buying bonds of even the biggest financial institutions. There will be, in the future, a bit more market discipline exercised in an industry that badly needs it.

Of course, this necessary step is but a small one on the road to a fundamental overhaul of the federal deposit insurance systems for both commercial and savings banks.

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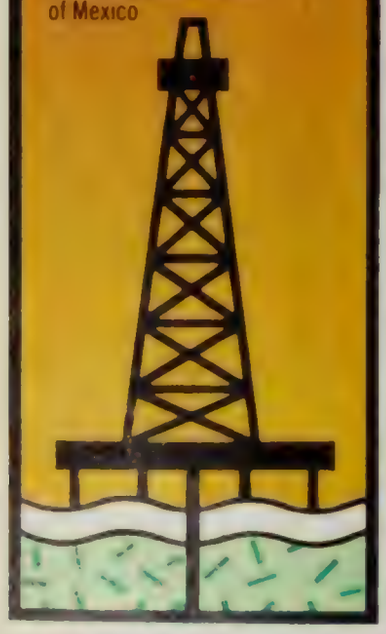

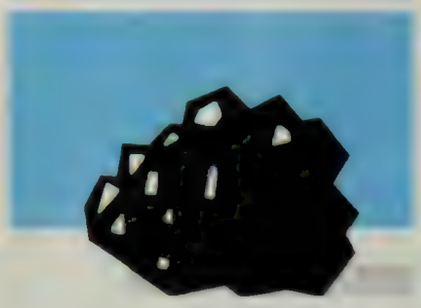

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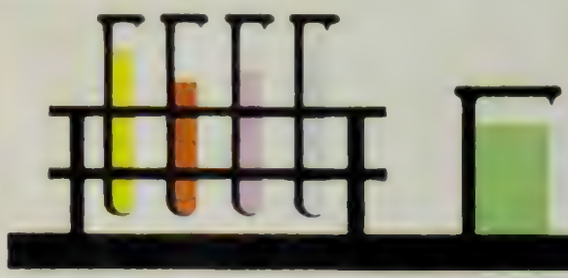

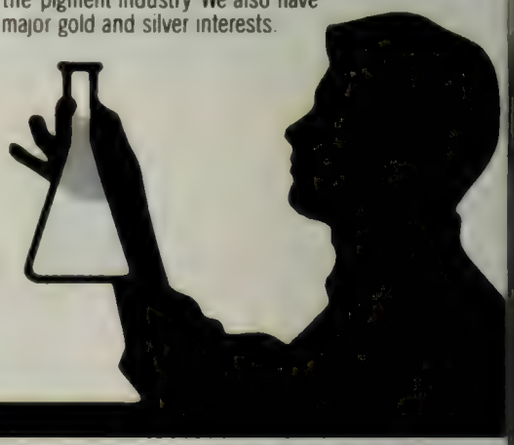

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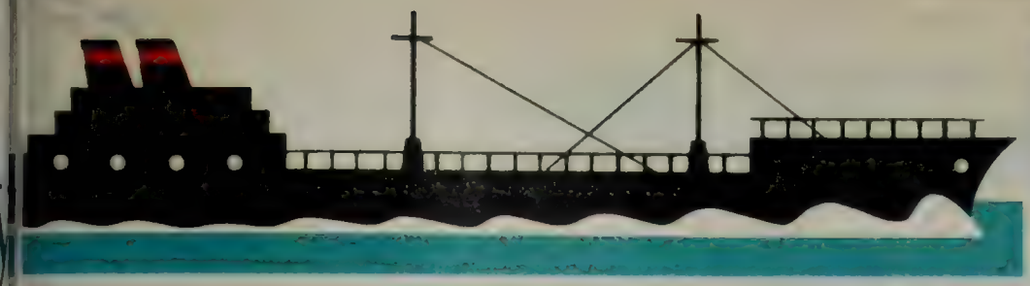

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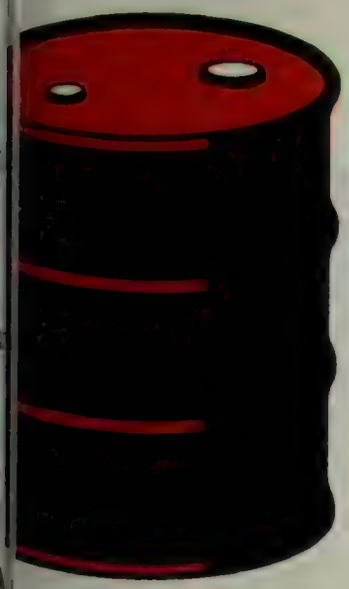

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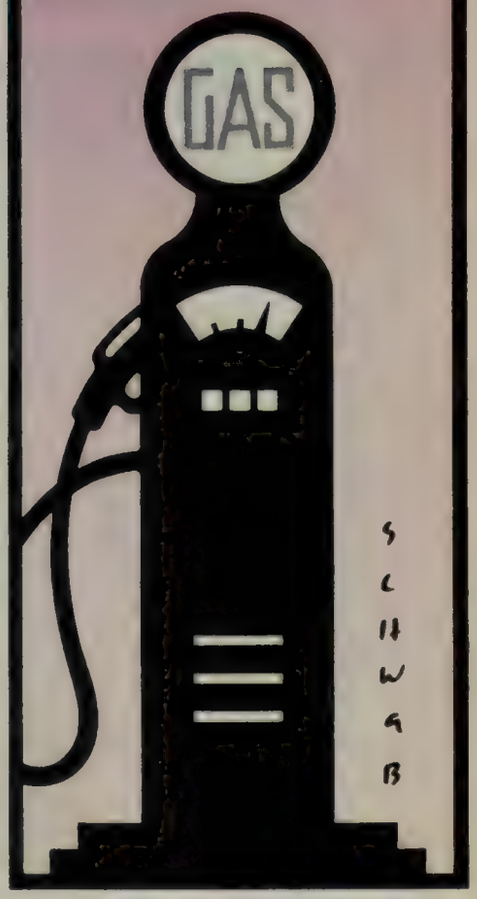

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Edited by Howard Banks

GREENSPAN BLINKED TOO SOON

The economy is healthy but not inflationary

DIG DEEPER, AND IT'S CLEAR that the economy is far from needing the brake applied by Alan Greenspan, chairman of the Federal Reserve, when he hiked the discount rate to 6.5% on Aug. 9.

What Greenspan fears is an upsurge in inflation, caused by the economy's strength. Yes, growth is healthy. With industrial production up 0.8%, capacity use at 83.5%, and 200,000 jobs a month still being created, the economy is doing better than many expected.

This is not bad news. In no way are we seeing a boom that would inevitably precede an inflationary surge. To understand this requires looking beyond the raw numbers, especially the international ones.

It's not the same today as in earlier worldwide booms

THERE IS A QUITE DIFFERENT FEEL TODAY from the two recent inflationary upswings, those of 1972-74 and 1978-79.

In both upswings, all industrial countries were growing rapidly at the same time. Industrial production in 1972-74 in the seven major countries (U.S., Japan, West Germany, U.K., France, Italy and Canada) peaked at around 7% higher than the long-run trend. And it exceeded 5% over trend for nearly two years in 1978-79.

Each country was bidding against the others for the steel, plastics, nuts and bolts needed to fill its factories and keep up with this frenetic pace. In the U.S., for example, nonfarm industrial raw materials rose 22% in 1974 and nearly 12% in 1975. And they rose 13% in 1978, 16.2% in 1979 and nearly 11% in 1980.

And today? Despite the relatively good economic times worldwide, industrial production is up barely 1% above trend. Nonfarm (and so not drought-affected) industrial raw material prices in the U.S. are rising by a modest 4% or so.

Ending import restraint will help keep prices down

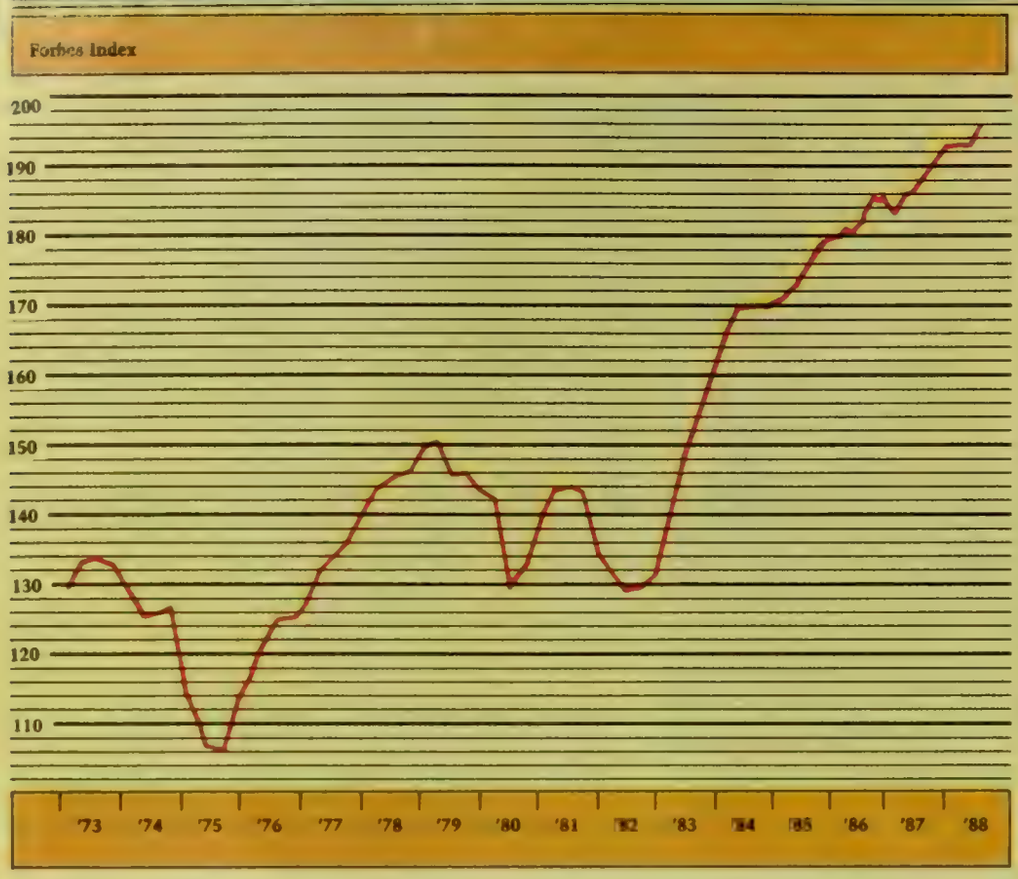
THERE IS A STRAIGHTFORWARD POLICY MESSAGE here. Rather than raise interest rates, policymakers should open all industrial commodities—from steel and microchips to autos and auto parts—to more international competition.

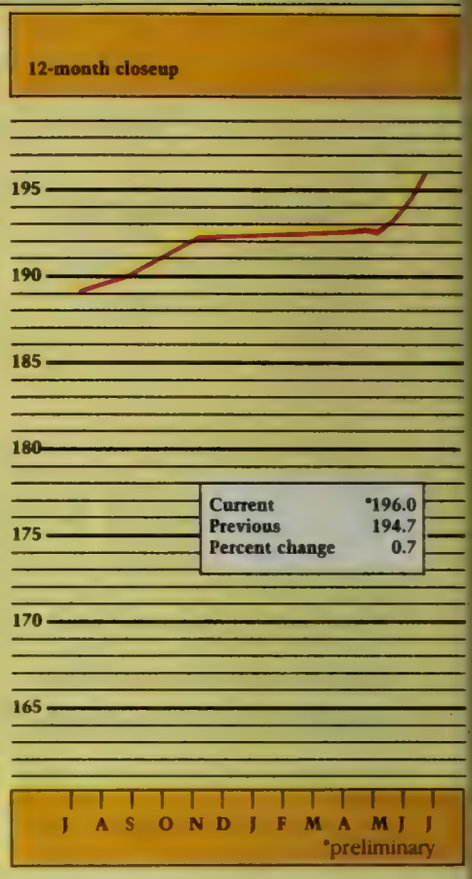
Throughout the world there is plenty of capacity in almost all products. Exceptions include some chemicals and some paper products, and even there capital spending is coming fast to fill the gaps.

Instead of weakly supporting Greenspan's rate hikes—and spooking the U.S.' already election-jittery financial markets in the bargain—a brave step for the outgoing Reagan Administration would be to phase out "voluntary" import restraints. Start with steel, where protection runs out in September 1989 anyway. Move quickly on to cars.

And remember, too, that higher U.S. interest rates mean a higher dollar and slower progress in turning around the trade deficit. It is worth pointing out that the dollar has lately been strong, and that the June trade deficit was up to $12.5 billion.

The Forbes Index





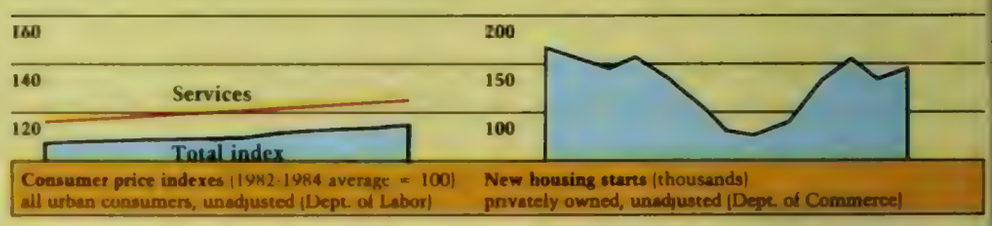
Buy now, pay higher interest later. Consumers took June's 0.7% increase in personal income and went to the stores in July, as retail sales climbed 0.5%. A lot of the spending was made possible only by loose credit. The record $642 billion of consumer installment credit outstanding in June, for example, was 0.9% higher than it was a month earlier. That was the 13th straight monthly advance. Since a fair amount of this debt is at floating rates—most credit-card balances, for instance—the jump in interest rates will leave consumers with less money to spend.

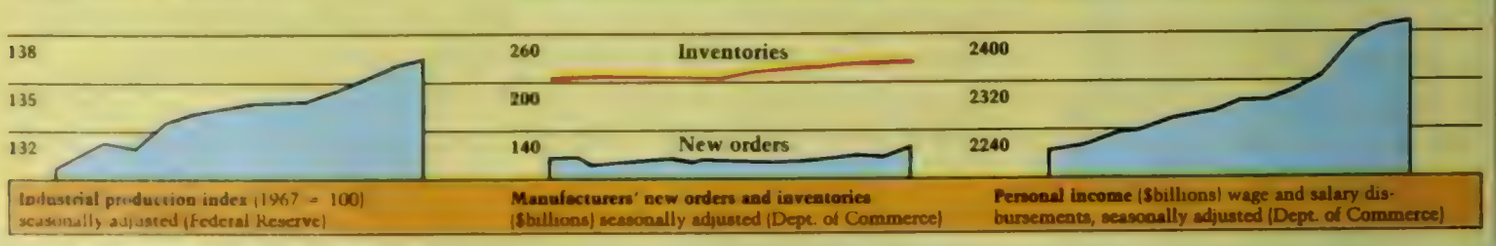
Despite a steady rise in new orders, business inventories rose 0.4% in June, marking the 12th consecutive month of increases. An unsustainable increase in inventories ultimately puts downward pressure on demand.

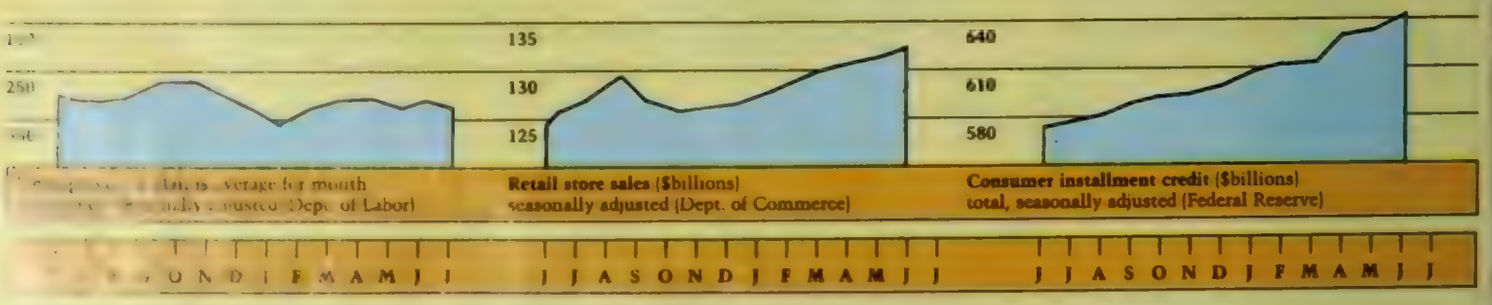
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.







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states, with sales of $450 million, from a home office in Charlotte, N.C. Hendrick is one who says lately he's had four calls a week from investment bankers hungry to take his company public. His response? "Today, I'm not interested. The number one need in our business is people not money."

Steven Motors Inc., a Wichita, Kans. dealer, started selling stock to the public in February, with shares underwritten by Wichita-based LSCO Securities Inc. and priced at 10 cents. But this offering was too dicey even for the gullible. It was withdrawn in August after failing to sell a minimum number of shares. It's not hard to see why the offering bombed. Steven's Yugo franchise earned just $50,747 in 1987 on sales of $1.6 million. The other part of the business, Steven Discount Car Rental and Steven Imports, which sells Maseratis, Rolls-Royces and other luxury cars, lost $194,070 on sales of $5.3 million last year, after losing $241,391 on sales of $2.1 million in 1986.

Wall Street has been talking about public car dealerships for at least two years, but only now are deals starting to pop up. We can almost write the scenario now for many of the offerings that sell: They'll go public during the auto boom and private again when business sinks—at a fraction of the new-issue offering price, of course. ■

Look who is getting into the fur coat business—Michael Milken, Richard Rainwater and the Bass brothers.

Mike likes mink

By Matthew Schifrin

IT'S HARD TIMES for the $1.8 billion fur business. Last October's stock market crash came just as the 1987 Christmas selling season was getting under way, catching furriers with record inventories in anticipation of customers who never showed up. The shares of three publicly owned furriers—Evans, Inc., Fur Vault and Antonovich, Inc.—collapsed. Fur Vault (1987 sales, $91 million) has seen its stock dive from a high of 15¼ last year to a recent 3½. The stock of industry leader Evans (1987 sales, $157 million) has also collapsed, and recently traded at 5⅞, roughly half its book value. Antonovich went public at a shade under $10 a share and recently brought 75 cents a share.

But look who has decided this is a good time to buy into the business: a partnership formed of Drexel Burnham Lambert's Michael Milken, the Bass brothers of Texas, the Equitable Life Assurance Society, Dallas investor Richard Rainwater, and others. The partnership has taken a stake in the most troubled of the industry's three publicly traded fur retailers, $32 million (1987 sales) Antonovich, which operates nine fur stores in the New York area.

It's not a big deal for the partnership, Investment Limited Partnership, which has a net worth of $800 million. But it is an intriguing one. Three weeks before the October crash, the partnership lent $3 million to Antonovich, secured by the company's accounts receivable. Since a banner season was expected, the six-month loan at an annualized 15% rate

What's a Blackglama anyway?

If you'd rather buy a fur coat than a fur stock, you should probably know something about mink. Mink accounts for 60% of fur sales in the U.S., and the best-known brand is Blackglama. The name is a trademark for natural black pelts auctioned off on the Seattle Fur Exchange by the ranchers of the Great Lakes Mink Association. Thanks to endorsements by such stars as Cher and Luciano Pavarotti, shoppers are willing to pay a premium for Blackglama.

But is there anything really special about a Blackglama? Not necessarily. Hundreds of furriers sell dark mink pelts of identical or superior quality under a variety of different trademarks, including Hudson Bay's American Ultra brand and Evans' Black Diamond.

The name Blackglama covers a remarkably broad range of pelt qualities. According to New York's Ernest Graf of Ben Kahn Furs, wholesale Blackglama pelts range from around $30 to $90, depending on the pelt's color, nap length, luster and thickness of underwool.

The range in Blackglama quality occurs because the Seattle Fur Exchange, which uses the trademark as a lure to get ranchers to bring their pelts there, normally brands 40% of all pelts auctioned on the exchange as Blackglama. The high percentage means that many pelts of varying quality are brought under the Blackglama banner. That's why furriers like Antonovich can offer a full-length Blackglama coat for as little as $2,995, while a Beverly Hills fur salon might sell a Blackglama coat for $12,000.

In fact, Blackglama labels turn out to be virtually a dime a dozen among furmakers, and at least one commercial fraud case is pending in Texas, involving a retailer accused of stitching both real and phony Blackglama labels into non-Blackglama garments. The labels are easy to obtain because the Seattle exchange routinely hands out one Blackglama label for every 15 or 20 pelts a buyer takes home. But since it takes 45 to 70 pelts to make a mink coat, the result is that there are many more labels being distributed than there are coats. Buyers beware.—M.S.

Chris Sanders

Furrier Daniel Antonovich
Backed by big money boys.

seemed relatively low-risk.

But the partnership had to advance $1.2 million more to keep Antonovich from defaulting on its debt. David and Daniel Antonovich previously had a banker; now they had a partner. In return for extending its credit, the partnership now holds mortgages on Antonovich real estate parcels, plus warrants to buy 17% of the company's stock at 25 cents a share—as compared with the $9.75 unsuspecting small investors paid when the company went public in March 1987.

Normally, Milken partners are passive investors, but with Antonovich in trouble, the group has taken a more active role. For religious reasons (the Antonovich brothers are Seventh-Day Adventists), their stores normally are closed on Saturdays, the biggest selling day of the week in the industry. But with the partnership involved, the stores will be open Saturdays.

Why do these savvy investors want to get into the fur business? It's not hard to guess. Luxury goods are booming, and women are working and have their own money. Until last winter, fur sales had climbed an average of more than 12% annually for a decade, powered by "low-end" $500-to-$3,000 fur coats and jackets sold to working women. Clearly, when women have spending money in their pockets, they enjoy using it to put expensive things on their backs.

The business so far is highly fragmented. Most of the 350 or so U.S. fur manufacturers are small shops in a five-block area near Manhattan's garment district. The three publicly traded furriers—Chicago-based Evans, New York-based Fur Vault and Antonovich, plus Korean-based Jindo (see FORBES, *Apr. 18*) together account for less than a quarter of the industry's $1.8 billion in sales.

Evans looks to be the most financially sound of the three public firms. The Meltzer family of Chicago owns 78% of the company's stock, and has recently installed the 34-year-old grandson of the founder as chief executive officer. Like other Meltzer family executives, he enjoys a costly golden parachute deal that makes unseating management almost impossible. Says analyst Stephen Weinress of L.H. Friend, "The Meltzers have always run Evans as a family business, and profits never seem to make it to the bottom line."

The Fur Vault is also a family affair, but its two founding brothers, Fred and Harold Schwartz, are feuding. Together they control some 21% of the company's stock.

The smallest of the three, Antonovich thus looks as if it might become the strongest—if the big-money boys continue to back it. ■

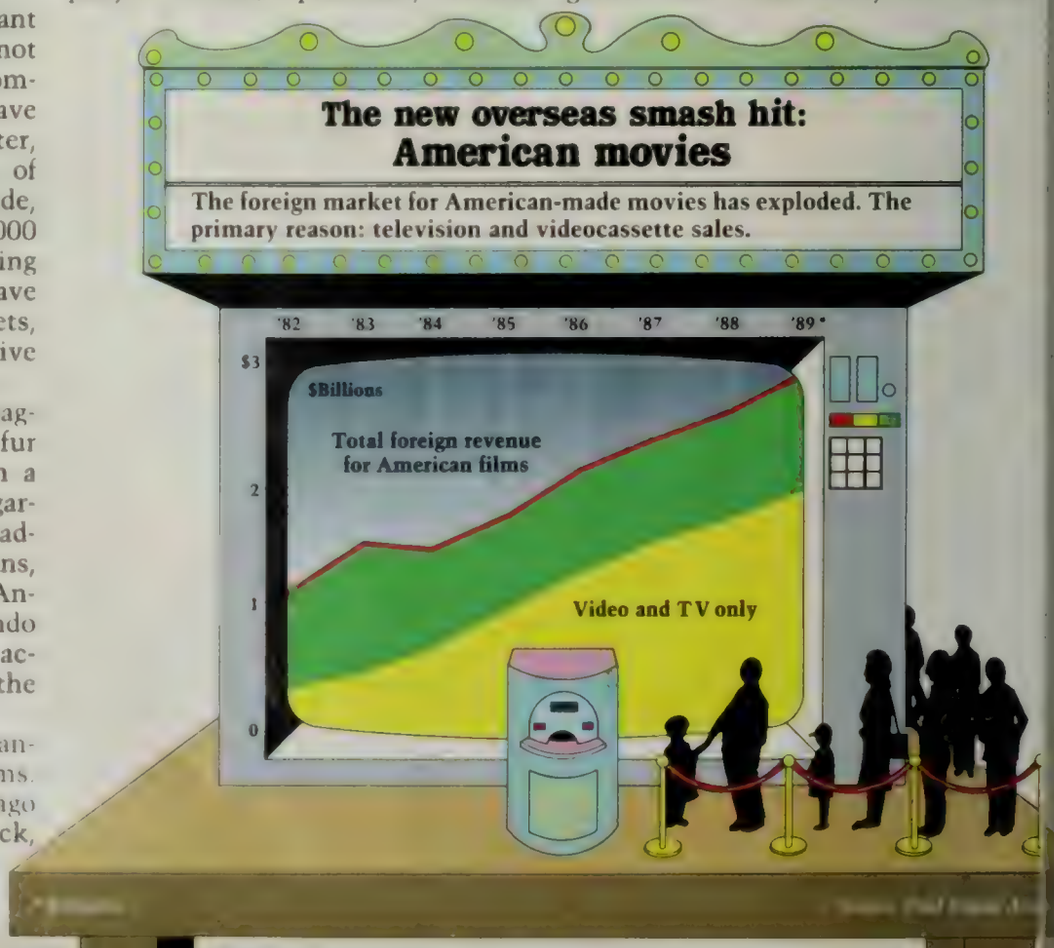
Their intellectuals may lament it, but Europeans, Latins and Asians love U.S. TV and movie entertainment. Not surprisingly, foreign capital is invading Hollywood.

Why rent when you can own?

By Lisa Gubernick

IN JULY Mary Tyler Moore finally got her happy ending.

MTM Entertainment, Inc., founded in 1970 by Mary, her then-husband, Grant Tinker, and the company's current president, Arthur Price, has not launched a hit since 1983's *Newhart* sitcom. For the last three years after-tax earnings, hovering around $26 million, had been mostly flat. Europe to the rescue. In July Television South, the eight-year-old commercial British station, together with Canal Plus, the French



The new overseas smash hit: American movies

The foreign market for American-made movies has exploded. The primary reason: television and videocassette sales.

pay television station, and Général d'Image, a French media group, paid $320 million for the producer.

As they used to say in vaudeville, you ain't seen nothin' yet.

American movies have been boffo box office abroad for years. This year American movie distributors *(see chart)* will reap an estimated $2.6 billion from foreign film sales. What's new, though, is television, with a capital T. The privatization of European television, which began quietly a decade ago in Italy, has accelerated and spread to France, with cable adding competition in Scandinavia and West Germany. In less than four years France has gone from three to six networks (total audience, 19.5 million).

By 1990, once Rupert Murdoch inaugurates his commercial satellite stations in Great Britain, and Spain finally privatizes its television stations, Europe's TV channels should reach well over 120 million households (the U.S. currently has a potential audience of 88.6 million households) and consume around 500,000 programming hours a year. That's well beyond anything the Europeans can hope to produce themselves. Silvio Berlusconi's Reteitalia in Italy and Beta-Taurus in Germany have produced some programming, mostly two-hour made-for-television movies and four-hour miniseries, but, as Lorimar-Telepictures' Michael Solomon points out, "They have yet to create product with international appeal."

No wonder they turn to America's prime- and not-so-prime-time programming. Two years ago Lorimar-Telepictures could not sell *Knot's Landing*, its popular prime-time soap opera, in France. This year it sold the entire 200-plus-episode series to TF 1, the recently privatized state-owned French channel, for $11 million, or roughly $55,000 per episode.

"With the European markets booming, it makes increasing sense for foreigners to own, not rent, American programming," says William Moses, senior vice president of CL Global Partners, the New York investment banking arm of Crédit Lyonnais.

The next likely acquisitors? The British. Carlton Communications, which owns Britain's largest independent television producer (fiscal 1987 revenues: $192.3 million); Central Independent Television (revenues: $409.7 million) and London Weekend Television (revenues: $347 million) top the lists of industry experts who are beginning to scan the Atlantic horizon. These companies are all cash-rich, with relatively little debt.

But not only the British are looking. Sony—which moved from entertainment hardware to software with its purchase in January of CBS Records—admits it is hunting. "We are interested," says Michael P. Schulhof, vice chairman of Sony Corp. of America. "Worldwide, we have a 25% market share in audio hardware, a 20% share in video hardware. Thanks to CBS we now have 24% of audio software. We need the fourth leg of the chair: a video software producer." Likewise, Japan's broadcasting group, NHK, which airs such U.S. shows as *Little House on the Prairie* and *Murder, She Wrote*, has installed an executive in New York to examine potential producer acquisitions.

The likely targets? "Anyone with a significant library makes sense, because there would be enough cash flow generated from library sales to sustain the acquisition while a buyer waits for new hits to be generated," says Moses. MTM's library, for example, is rich with such past hits as *St. Elsewhere* and *Lou Grant*.

Most likely to draw acquisition fire among the major studios are Columbia Pictures Entertainment and MCA. Both have valuable film libraries and managements whose grip on the movie business seems to be waning. It would take $2 billion to $3 billion to buy Columbia, roughly twice that for MCA, making the Japanese the most likely predators.

But it will not take a multibillion-dollar acquisition to get into the U.S. production game. At the top of the independents' roster are such publicly held companies as Reeves Communications (its library includes multiple seasons of *Kate & Allie* and *That's Incredible*, a big seller overseas), which has a market capitalization of $76 million; Republic Pictures (its current hit, *Beauty and the Beast*, is licensed in over 80 countries, and it has a 1,400-film library), with a market capitalization of roughly $40 million (including debt); and even tiny Laurel Entertainment, with a market cap of $6 million, the New York-based producer of *Tales from the Darkside*.

Certainly American-made entertainment, now one of this country's most valuable exports, will continue to dominate the international screen. This, of course, is good news for the U.S. balance of trade. But it also makes it virtually certain that more and more U.S.-made entertainment will be foreign-owned. ■

Kemper Corp. had a superb record in diversifying. But then it bought into the stockbrokerage business at the wrong time.

Broker blues

By Rick Reiff

DIVERSIFICATION has often been fruitful for Kemper Corp., the insurance company headquartered in Long Grove, Ill. But this time it stumbled.

Eleven years ago, three-fourths of Kemper's sales came from cyclical, high-risk property-casualty lines. By determined effort, $3.7 billion (revenues) Kemper has built a thriving life insurance business, 29% of revenue and 16% of profits in 1987; a lucrative mutual funds business, at 8% of revenue and 17% of profits; a reinsurance subsidiary, 11% of revenue and 20% of profits; and a $6.7 billion investment portfolio, 23% of profits. Property-casualty insurance, meanwhile, has been pruned back to a fifth of the revenue pot.

And it's a far larger pot. Revenue has quadrupled in 11 years; earnings growth has averaged 16%. Last year's earnings of $251 million, or $4.12 a share, were up 21% from 1986.

Note, however, that virtually all

Richard Derk

Joseph E. Luecke, Kemper Corp. chairman and chief executive officer
Investment in brokerages, $305 million; profits, practically zilch.

the diversification was in related lines. Kemper came a cropper with an acquisition that seemed related, but in fact wasn't.

Since 1982 Kemper has spent $305 million to buy and shore up four established regional brokerage firms—Cleveland-based Prescott, Ball & Turben Inc., Milwaukee-based Blunt Ellis & Loewi Inc., Bateman Eichler, Hill Richards Inc. in Los Angeles and Denver-based Boettcher & Company—and two smaller outfits, Lovett Mitchell Webb & Garrison Inc. of Houston and Gulfstream Financial Associates in Boca Raton, Fla. When it was finished, Kemper had 1,700 accounts [illegible] in 28 states, generating $556 million in commissions, fees and investment income, about 14% of the company's total revenue.

Profits? Practically zilch. The brokerage business netted a paltry $15.5 million since 1982 despite the bull market. Postcrash, it lost $10.8 million in last year's fourth quarter and $3.5 million in the first half of this year. Most strong regional brokers have eked out profits in 1988.

What went wrong? Just about everything. Kemper bought mostly second-rate firms and then ran them poorly. There was almost no coordination among them, and little of the oversight that helped Kemper's other new operations into the black. Put it this way: Kemper understood the insurance business, and it understood investing—which is what insurance is partly about. It did not understand the brokerage business.

Joseph E. Luecke, Kemper chairman and chief executive, got into this mess worrying that a consolidating brokerage industry might not want to sell Kemper's mutual funds, which were marketed heavily through regional firms. His solution? Buy distribution by buying brokerages.

This move ignored the experience that has made A.G. Edwards & Sons a paragon of success among the regionals. Edwards flourishes as an agent selling everybody's products; unwed to any group, it can offer its customers those products that seem to hold the best value—as well as the highest profit for the firm. But the Kemper brokerages, a network only half as big as Edwards, are stuck in a no-man's land; they are expected to push Kemper funds, but are allowed to sell other company's products, too.

The upshot is that about 80% of Kemper's funds are still sold through outside outlets; even Kemper's own brokers sell the company's products just 40% of the time.

When Kemper launched its reinsurance business, it centralized all underwriting at corporate headquarters. No such controls for the brokers, however. Kemper's brass didn't realize, for example, that Blunt Ellis had any exposure in index arbitrage until that firm lost $16 million in the market crash and tapped its parent for a $32 million loan.

"Joe Luecke has no idea what the brokerage business is about, not a prayer," says John R. Goldsmith. Goldsmith is hardly an impartial witness. He was fired in December as chief executive officer of Prescott, Ball. The brassy Goldsmith, 47, Kemper's most accomplished brokerage executive, irritated superiors with his maverick flamboyance and stinging criticism. Even his management style was out of place at conservative Kemper. Goldsmith shuttled between Manhattan and Cleveland in a private jet. His boss, Luecke, has no jet and drives to Kemper's semirural headquarters in a four-year-old Cadillac.

Luecke is now clamping down on the brokerage division. He has replaced two other brokerage chiefs. He has promoted John R. Bolin, 49, lured away from A.G. Edwards in 1984 to salvage Bateman Eichler, to oversee the entire division. But they have a long way to go. On revenue of $524 million in 1986, about the same as that of A.G. Edwards, Kemper's costs were $128 million higher than those of Edwards.

It is hard to imagine a worse time to rebuild this business. Brokerage margins are badly squeezed. Kemper's profits, hurt by stiff price competition in property-casualty and tax adjustments, are weak, off 23% so far this year. Luecke admits he might sell the brokerages if he could break even, but that's unlikely these days. By most reckonings, Kemper might get only $150 million for the broker division, or about half its investment.

"You have to know when to hold and when to fold," says Joe Luecke. You also have to know that not all financial services businesses are the same. ■

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Who would go into cattle and hogs now, with consumption down and costs up? The billionaire Bass brothers, naturally.

Calling all hogs

By Phyllis Berman with Dana Wechsler

William (Bill) Haw, 49, is a pleasant, dignified man, but to a lot of small beef and hog farmers Haw is the devil incarnate. Haw is president and chief executive of National Farms, Inc., a producer of red meat in which the billionaire Bass family—Edward, Robert, Sid and Lee—of Fort Worth, Tex. are investing $150 million or so. As a percentage of their holdings, these assets are small change, but to the industry the Basses embody corporate farming at its biggest. On the Basses' behalf, Haw has bought cattle feedlots (five in the last year), picked up distressed grassland ranches and expects to double the hog operation within a year.

The Basses are probably the biggest owners of red meat on the hoof in the U.S. National Farms owns a $50 million hog farm with 17,000 sows, which produce 350,000 marketable hogs per year; nine feedlots, which can hold 250,000 head of cattle; and more than 100,000 acres of ranch land from Nebraska to Texas.

Why livestock? This would seem to be a poor time to be in the red meat business. Per capita pork consumption tumbled 5% a year between 1980 and 1985; demand for beef dropped from 92 pounds per capita in 1977 to 76 pounds in 1987. This summer's drought has raised the cost of feeding hogs by some $20 a head and the cost of feeding steers by $75 a head, says Gene Futrell, an economist at Iowa State University. Not particularly inviting for investors.

But there is a brighter side. The U.S. cattle herd is at a 26-year low and falling. At the same time, the pork and beef industries are becoming aggressive marketers. They are introducing branded meat products, using industrywide advertising campaigns, and bringing out lean products for people who want to lose weight without cutting down on their eating.

Eli Reichman

National Farms [illegible]
The devil incarnate to* [illegible] *rmers.

There is this, too: In the livestock market as in the stock market, mass psychology and cyclicality work to create lucrative opportunities for full-time professional managers like Bill Haw and his bosses, the Basses.

From an investor's standpoint, cattle fattening can be lucrative. This is especially true when prices for feed and for feeder cattle (steers and heifers when they enter the feedlots from the range) are low, and prices for slaughter cattle (when they leave the feedlots) are high. For example, Fort Morgan, Colo.-based Agritech puts together cattle-feeding partnerships whose investors include Drexel Burnham partners. Agritech's investors put up $100 per head for an animal and borrow the rest of the $600 it takes to bring a steer to its 1,100-pound slaughter weight.

Until this summer's drought, conditions had been generally favorable for cattle investors. "We've made as much as $55 per head over the last three years," reports Agritech manager Gary Weisbart. Because of the leverage, and because investors can turn their investment 2.5

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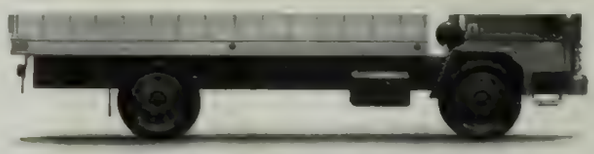

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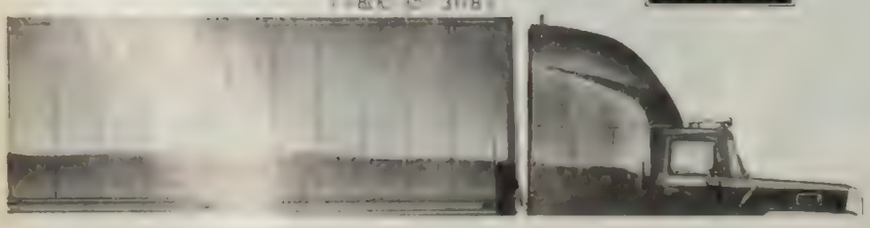

Eli Reichman

Modern hog farming
High, and stable, returns.

times per year, aftertax annual returns have been as high as 80%. At times like those, the Basses have owned as much as 30% of the cattle in their feedlots.

That's the kind of situation investors dream about, and hopes for which keep them in the business. But when feed and feeder cattle prices rise and too many cattle drive slaughter prices down, investors can lose as much as $150 per steer, more than wiping out their entire capital. Currently, the times are bad: Grain prices have taken off, thanks to the drought, and feeder cattle prices are strong. Now the Basses are reducing their ownership of cattle and making money from fees they charge investors to fatten their cattle: around $35 a head.

If things get a lot worse than they are today, that is precisely when Haw will start buying cattle and fill National Farms' feedlots again with its own cattle. If he steels his nerves and buys when panicked investors don't, Haw will control a scarce commodity and be able to charge far higher prices.

So the Basses and other owners of the cattle feedlots make out in good times and in bad times. Heads they win, tails they win.

"Sure, it's chaotic," says Haw, cool as ever. "But chaos is our favorite environment."

Haw and his backers clearly know how to make money out of chaos. This is true in hog raising as in cattle raising. In a near record year like 1987, U.S. hog farmers averaged $34 a head. But large producers like the Basses earned almost double that. Why? There are several reasons, including economies of scale and the use of sophisticated cement holding

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cells. (Note that for tax purposes, cells can be depreciated over 7 years, like equipment, not 15 years like most buildings.) The extra profitability means that in bad years—and 5 of the last 10 have been bad—big hog farmers will make at least $15 a head, even as small ones lose money. Thus big farmers like the Basses will get bigger, even if red meat never regains a pound of per capita consumption.

No wonder the small raisers resent Haw and his billionaire backers.

As a further blow to the smaller people in the business, the Bass enterprises have a leg up with the big meatpackers. Meatpacking has already seen vast consolidation. Cattle slaughtering is now dominated by Cargill, ConAgra and IBP, 49% of which was recently spun off by Occidental Petroleum. Together, these three slaughter 71% of the steers and heifers in the U.S. and produce about 78% of the beef shipped to supermarkets. ConAgra and IBP are now numbers one and two in hog slaughtering, a business expected to become highly concentrated.

Livestock producers and packers have always mistrusted one another. "If the producers got the upper hand in times of a shortage, they could be sure the packers would retaliate when the cycle turned and there was a surplus," explains W.D. Farr, the grand old man of the cattle-feeding business. Farr was forced to sell his feedlot and ranch in Greeley, Colo. to National Farms last year.

Here's where operators like the Basses have an advantage with the big slaughterhouses: A modern slaughterhouse is a capital-intensive factory that works on a low margin and, like any factory, requires a steady stream of material moving through it. "What counts in the slaughterhouses," says Kenneth Monfort, president and chief executive of ConAgra's Red Meat Group, "is having blood on the floor."

He means fresh blood, not dried blood. With their feedlots, the Basses will be in a position to deliver steady supplies week after week, even when livestock is in short supply elsewhere. Haw saw that slaughterhouses would be willing to pay a premium for that consistency. Why? Because with a significant portion of their supply guaranteed, the packers could bargain harder for the rest of their needs with the small farmers from whom they buy pen by pen. This is what makes the smaller farmers so angry. In the future it will be even harder, when red meat prices are high, to recoup the losses they suffer when prices are low.

Haw says he took the premium idea to a packer three years ago, and the packer liked it. "Sophisticated businesses recognize it just plain makes more economic sense to deal with a few large suppliers than to buy one pen at a time," he explains.

Haw can't really control the pricing. The price Haw gets for his hogs varies with the market, but it is always more than a small farmer would receive for the same hog. How much more Haw won't say. But another

Bill Haw's cowhand

National Farms manager Bill Haw has a 12,000-acre cattle ranch in the Flint Hills of Kansas. The ranch—plus another 13,000 acres nearby—is managed by a remarkable 49-year-old woman named Barbara (Bobbie) Hammond, a third-generation cowboy. (Where Hammond comes from, "cowperson" is not used, and Hammond doesn't mind being called a cowboy.) Eschewing the pickup trucks many modern cowboys have traded their horses for, Hammond covers some 30 rugged miles a day in the saddle, breaking colts and roping and treating sick steers as she looks after 9,000 head of cattle.

Larry Fleming

Cowboy Bobbie Hammond
Thirty miles a day in the saddle.

It's a tough living. Cattlemen pay ranchers like Haw $13 per acre to graze their cattle for the April to October season. Hammond and her son, Chip, 26, get paid a percentage of their $13-an acre fee and are responsible for the cattle in their charge, which gain up to a full 250 pounds by the end of the season. "If their cattle don't thrive," says rancher Haw, "then the cowboys like Bobbie Hammond have none to oversee next year." Unlike most other cowboys, the Hammonds promise to reimburse cattle owners for any animal that strays off the range. As a result they fill their acreage with cattle, despite the shrinking U.S. cattle herd.

Between them, Bobbie and Chip Hammond earn about $50,000 a year. This they supplement by raising registered quarter horses.

When the cattle are ready for the feedlots, Hammond's hardest work begins. At daylight, she and the neighboring cowboys, hired at $30 a day, start rounding up and driving the cattle to pens, from which they are shipped. By October all are gone. And for four months, Hammond and her son get ready for the next season by burning grass and fixing fences and corrals.

At 22, Hammond married a career military man and moved with him from Kansas to California, working as a keypunch operator, bank teller, cashier and secretary. After they were divorced, she returned to Kansas and to the work of her father and grandfather.

Bobbie Hammond lives in a log cabin, often wears long braids, and regularly wins barrel racing competitions at regional rodeos. Says Hammond: "The biggest compliment anybody can pay me is to say I'm as good a hand as my daddy was." She hopes her grandchildren, 5-year-old Rope and 2-year-old Dalli (they were named for the rodeo team-roping maneuver), will be the fifth generation to follow in the family cowboy tradition.—**P.B. and D.W.**

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large-scale hog supplier, Charles Sand of Columbus, Nebr., figures that last year he received an average premium of $4.40 per head for supplying the packers with a uniform product—a 220-to-230-pound hog—in large quantities on a consistent schedule.

It's common belief among hog farmers and cattlemen that almost all Haw's production, hogs and cattle, has been sold to IBP on a prearranged basis ever since National Farms got into livestock. IBP Chairman Robert Peterson, a former cattle buyer who is as profane and brusque as Haw is soft-spoken and gentlemanly, declines to be interviewed. But an arrangement between them makes sense.

IBP is the only large packer that has no hog or cattle production of its own. It appears to have fallen behind in the race to brand beef as Frank Perdue did chicken. Says one person close to IBP:

"What counts in the slaughterhouses," says Kenneth Monfort, "is having blood on the floor."

"Peterson's and Haw's strategies are complementary. Both will benefit from other packers' spending millions to develop the branded [meat products] business. If red meat demand takes off, Haw will be in a position to provide IBP with livestock on the hoof, and Peterson will be able to supply carcasses to the other packers."

The Basses are not necessarily in red meat production for the long haul. Some producers think the packers eventually will want to control the entire livestock-fattening process. This suggests they may want to buy operators like National Farms and integrate from factory back to farm and feedlot. Ken Monfort says that in ConAgra's Monfort division he wants to increase ownership of the animals he slaughters from 20% to 33%. "Assured supply," he says, "is the main issue facing the packing industry today."

Haw says that he and the Basses will, if the price is right, be happy to sell their farms and feedlots. That would leave National Farms with over 100,000 acres of ranch land. If, as some predict, food shortages develop by the year 2000, the Basses may reap another bonanza on this ranch land, much like one they received seven years ago when they sold 40,000 corn-growing acres to Prudential at the top of the market.

If they do pull this off, the Basses will look just as smart about farming as they have about oil, stocks, bonds and real estate. ■

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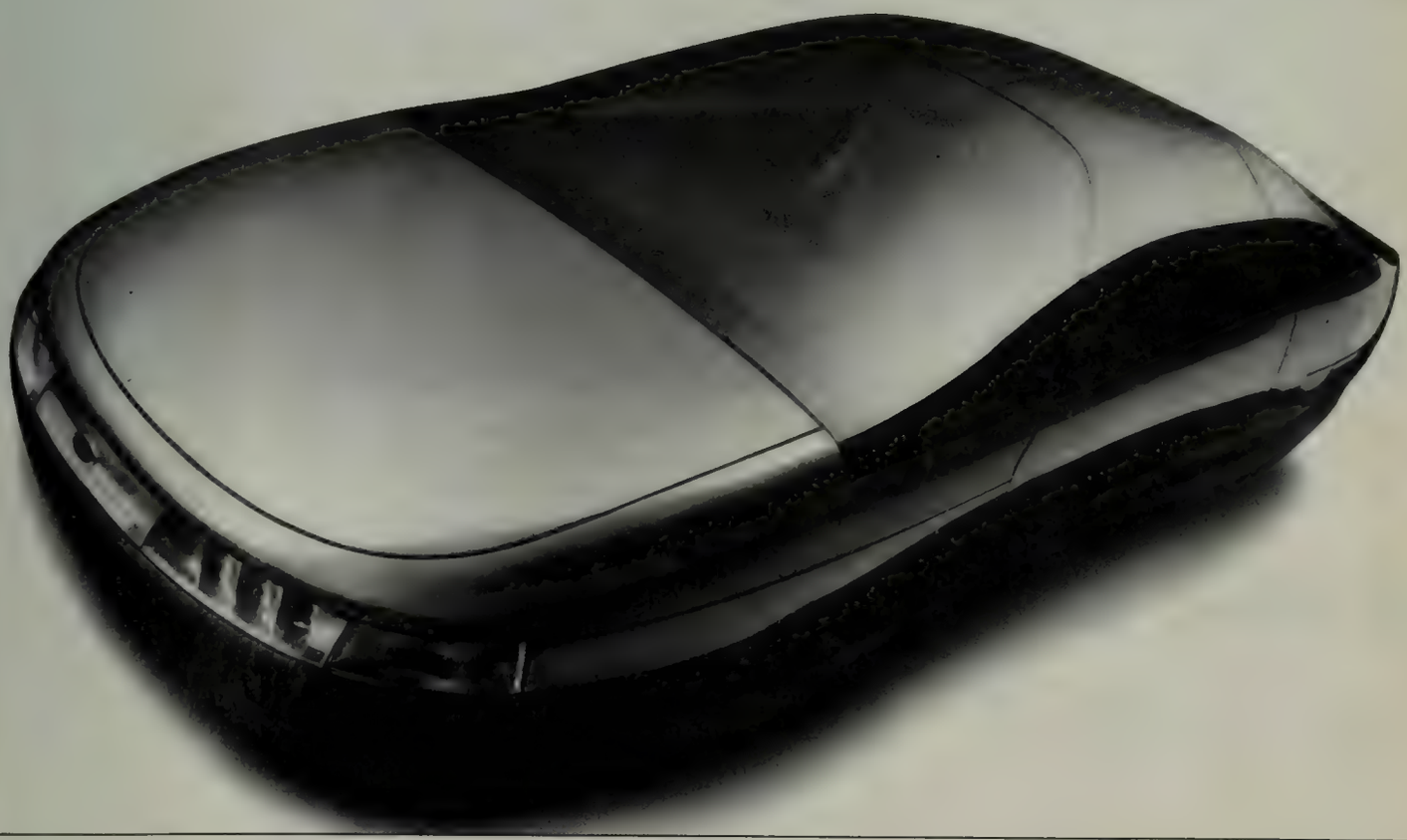
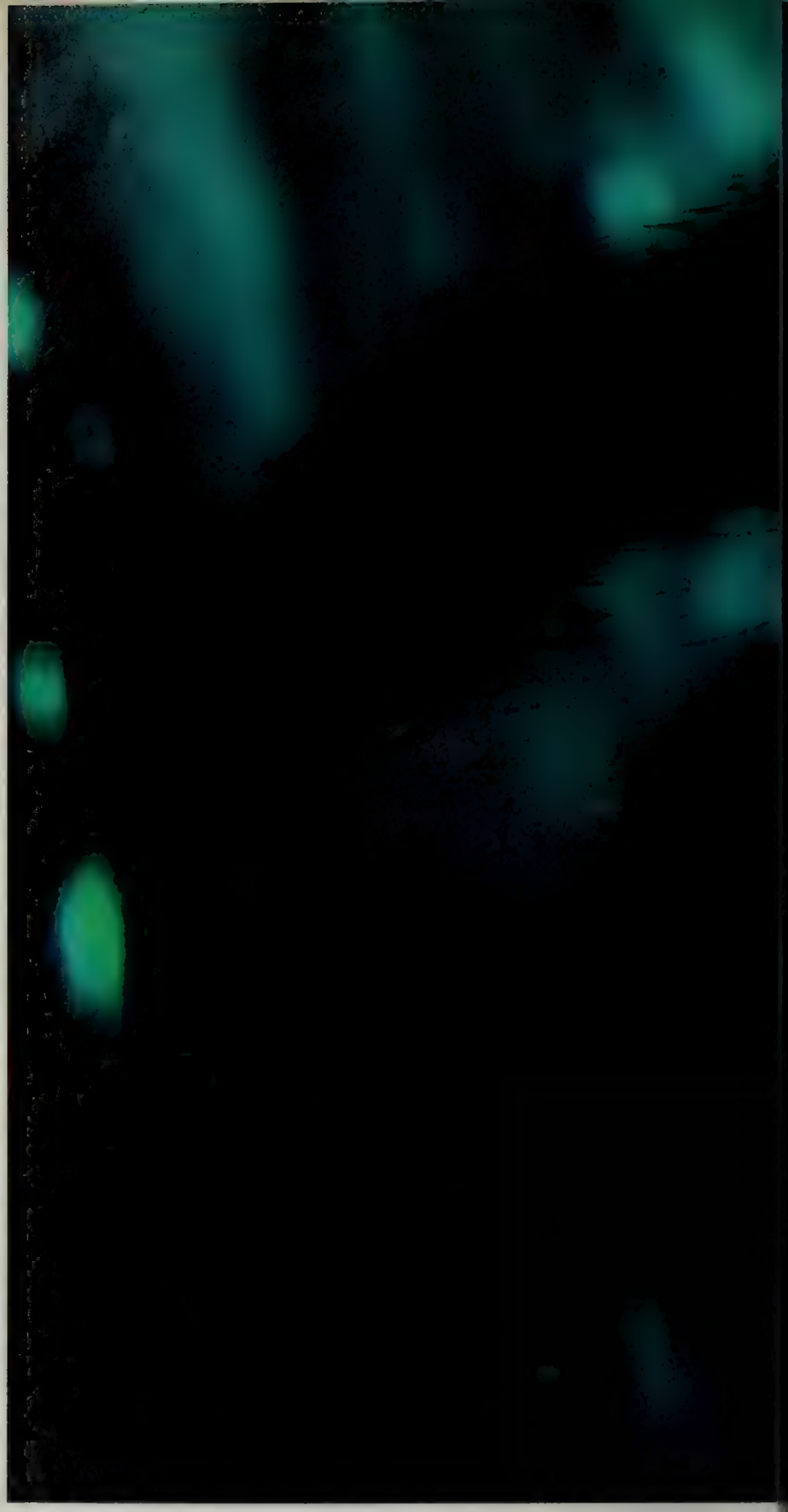


"There's a submarine out there. My job is to find it."



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Michael Dingman lost his bid to control Santa Fe Southern Pacific, but he has quite a nice consolation prize.

Mike Dingman bets on chemicals

By Howard Rudnitsky

You've heard how Henley Group's Michael Dingman lost out in his effort to buy control of Santa Fe Southern Pacific. How he agreed to sell most of Henley's assets to Itel Corp. for $1.2 billion.

But Mike Dingman isn't losing them all. He stands to make a handsome profit on an obscure Henley offshoot called Henley Manufacturing Corp.

The story began last winter, when Henley spun off to its shareholders 45% of the shares in its chemicals and manufacturing operations. Even though most of the new company consisted of chemicals, Dingman named the spinoff Henley Manufacturing, perhaps because manufacturing was then in vogue and chemicals weren't. Nevertheless, chemicals have become sexy (FORBES, *Aug. 8*)—and Manufacturing's stock has tripled, to a recent 60, in under a year.

Dingman personally owned 1.5 million Henley Group shares, 1.7% of the company, and thus got a bit under 1% of Manufacturing shares in the spinoff. He also bought 340,000 special incentive shares (3% of the company) from Manufacturing at $17.77—slightly below the then market price, paying 10% more and borrowing the cash from the company, at 8.5%. He now owned [illegible] of Manufacturing.

Enter Toufic Aboukhater, who has invested in Dingman deals for years. Aboukhater's Bassak Ltd., a Bermuda investment group, bought Manufacturing shares after the spinoff, accumulating 17%. With Manufacturing doubling to 42 from 20 in less than six months, Aboukhater wanted to take his profits. With Manufacturing and Group declining to buy him out, Aboukhater agreed to sell his block to Dingman for $55 a share, $104 million in all. These shares will give Dingman 21% of Manufacturing.

Dingman didn't put up any cash for the Bassak shares. He borrowed half the $104 million from Wells Fargo and the other half from Bassak, using a personal guarantee.

No question: Dingman is at risk. With a cash investment of about $1.2 million, he will control shares worth $140 million at recent prices, but that stock is heavily encumbered.

Now for the real fun. Dingman's 21% ownership of Henley Manufacturing will probably go much higher, because of a deal Dingman worked out as chairman of both Henley Group and Henley Manufacturing.

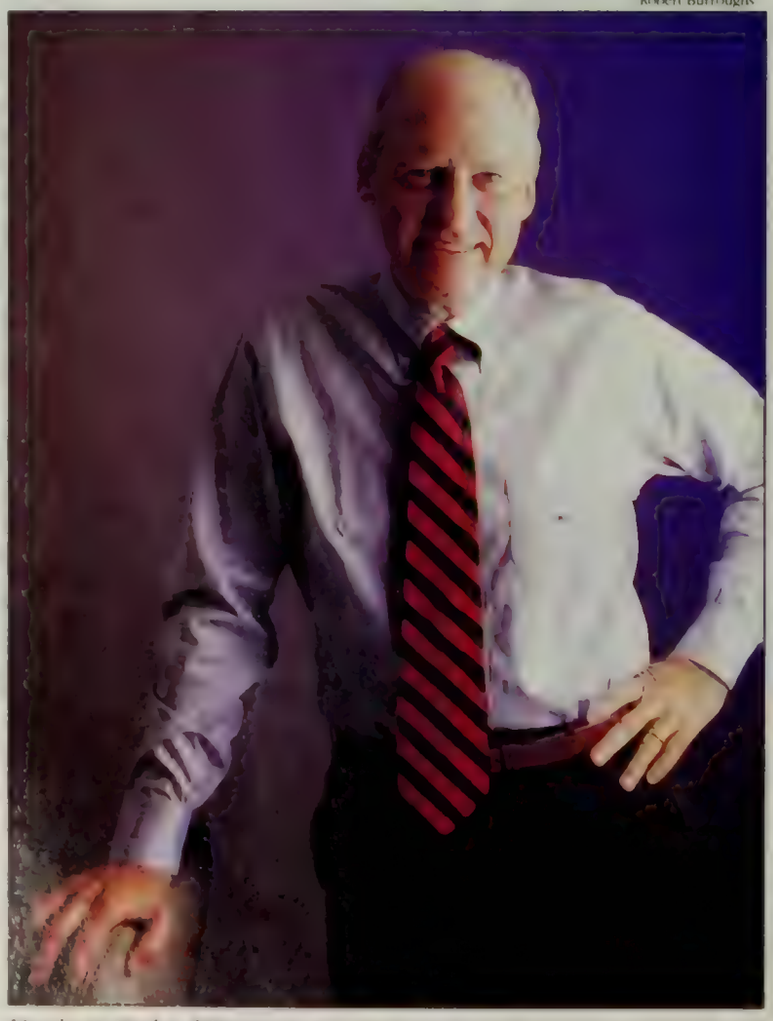
Manufacturing has the right to buy the Manufacturing shares that Group still holds—now slightly down to 52%—for $19.90 a share, one-third the recent price.

After Manufacturing exercises its option—which, of course, it will—the number of outstanding shares will drop from 11 million to 5.3 million. Thus Dingman's 21% will become 43% and will effectively control Manufacturing. This makes him the biggest beneficiary of its option to buy out Group—an option he negotiated as Group's chairman.

Dingman bristles at any suggestion that there was a conflict of interest. He says, "I bent over backwards to make sure I got no favored deal at the expense of either company or shareholders. Besides, I'm taking a considerable risk by borrowing heavily to buy all that stock at $55 a share. The commodity chemicals business is highly cyclical."

Mike Dingman, in short, is betting his own fortune on continued prosperity in chemicals. If the business turns down and Manufacturing stock drops, he will be left with a lot of debt secured by shares that have lost much of their value. But if he didn't think the business would continue to do well, he wouldn't have gone deeply into debt to get control of Henley Manufacturing. If he's right, he stands to make a ton of money. If he's wrong. . . . ■

Robert Burroughs



Henley's Michael Dingman
Obscure offshoot, bloody fortune.

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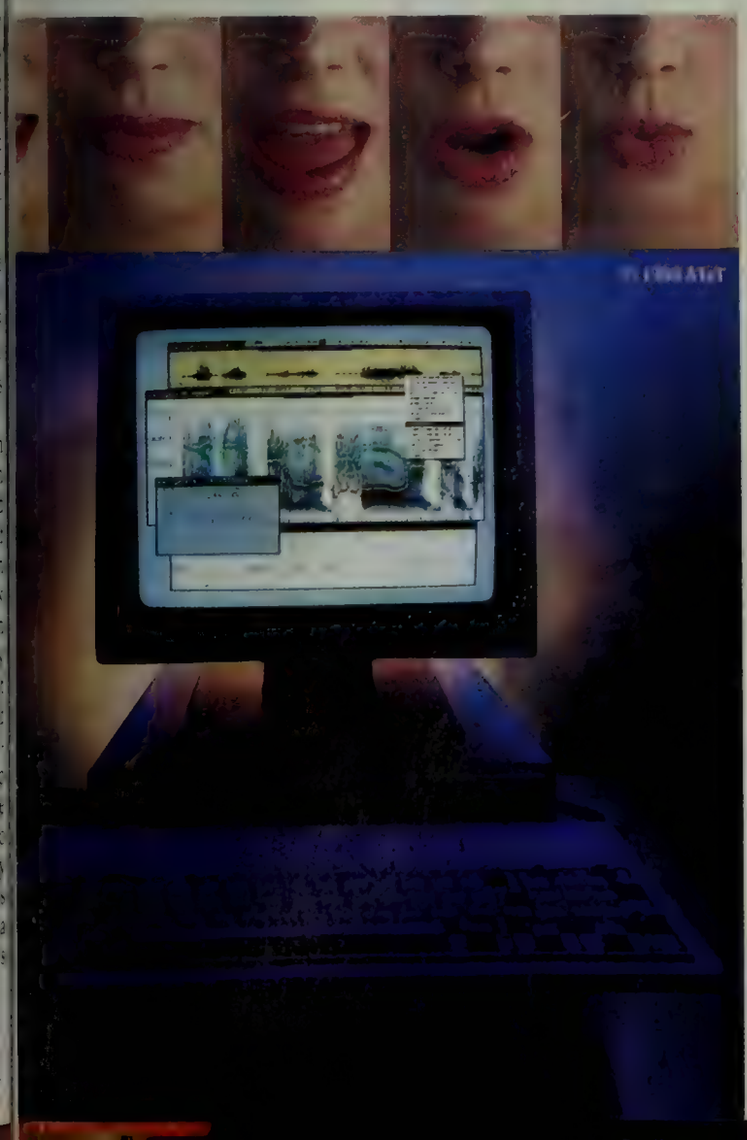

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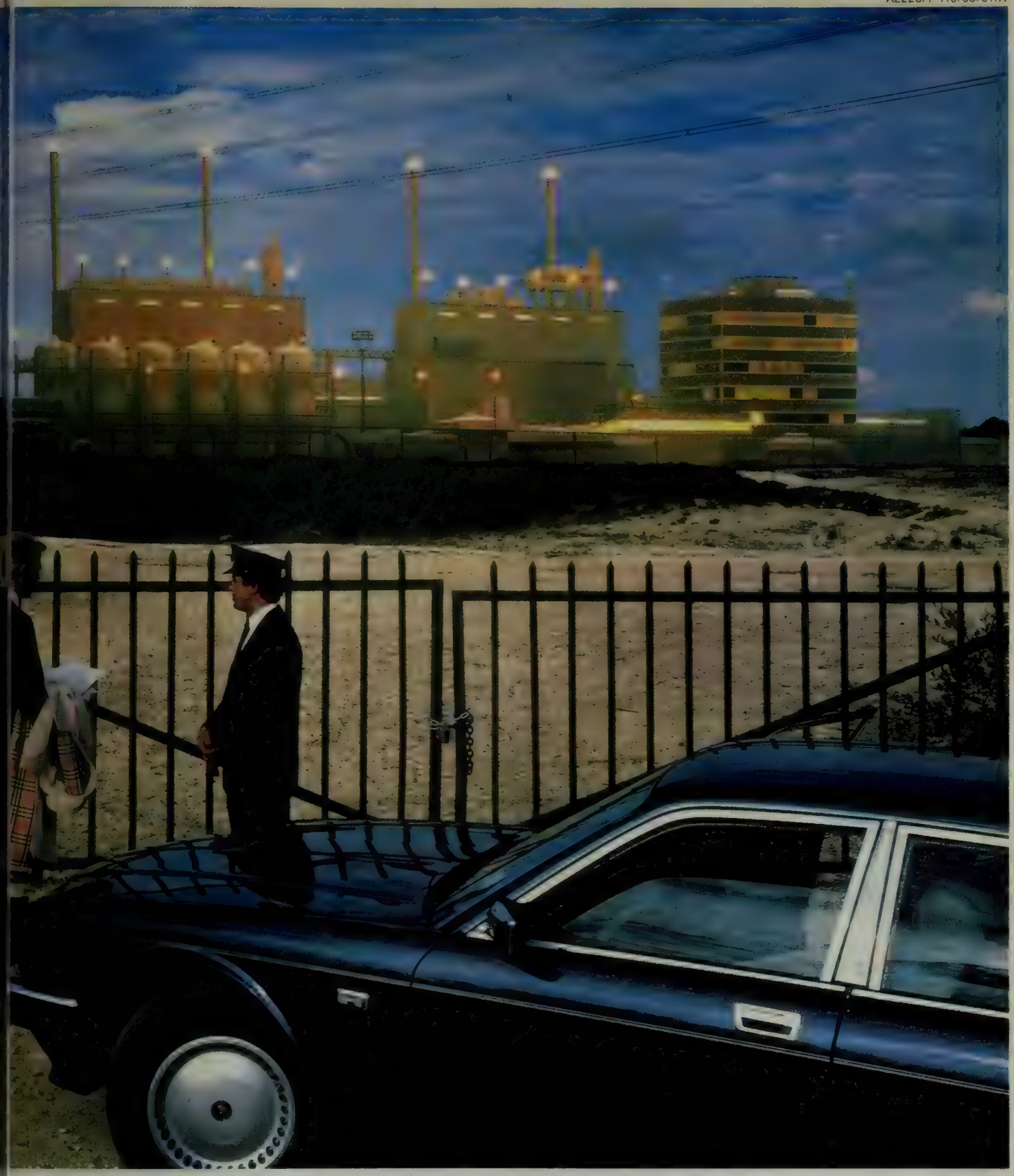

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Not all "insured" municipal bonds are alike. That's a lesson many buyers of insured housing bonds just learned.

Downgraded!

By Laura Jereski

MUNICIPAL BOND investors, watch out: Those "insured" munis are not always as secure as they sound. Insurance or no, investors would be smart to look at the collateral behind the bonds.

This lesson comes a little late for holders of some Philadelphia Redevelopment Authority, St. Paul Housing & Redevelopment Authority and other housing bonds. These have become part of one of the largest downgradings the municipal bond market has ever seen, affecting $9 billion in tax-exempts. Originally sold to investors as AA credits only a few years ago, the bonds now hover a notch above junk debt. Bearing coupons of 11% or more, these bonds would normally trade at 110 but have gone as low as 102, a loss of $80 per bond.

What hit them? Simply this: In June Standard & Poor's downgraded Verex Assurance, a subsidiary of Greyhound that insured individual mortgages and mortgage pools, to BBB–. That immediately lowered the rating on $2.8 billion of bonds, with a possible $6.2 billion to follow.

Here's what happened:

Verex agreed to insure whole pools of mortgages against a certain level of loss. Those mortgages were financed through housing bonds issued by state and local agencies. Thus the mortgages were [illegible] collateral behind the [illegible] ugh 1985 Verex [illegible] ly writing busi- [illegible] Oklahoma, Col- [illegible] lifetime high- [illegible] markets. As these housing markets worsened, Verex' net losses and loss-adjusting expense mounted, totaling more than $400 million from 1985 through 1987.

As a result, S&P downgraded most local housing issues that carried Verex insurance. That means Verex-insured Philadelphia housing bonds, where total delinquencies on mortgages are a low 7%, now carry the same marginal investment grade rating as one Midland County, Tex. bond, in which more than 15% of the mortgages have soured. Meanwhile, S&P is pondering doing the same with state housing bonds.

As always, trouble brings opportunity to sharp-nosed traders and investors. "You have to look at the underlying assets," points out Thomas Buckmeyer, bond analyst at Smith Barney, to figure out what the bonds are worth.

On their own, says Buckmeyer, "a number of the state agencies are AA-rated." S&P will likely reinstate that higher rating, as it has already on Pennsylvania Housing Finance's $979 million of Verex bonds outstanding. Which, in all probability, makes the bonds a good buy right now.

Another good buy might be Louisiana Housing Finance Agency bonds. Take the series 1984A 11s of 2006. They trade at about 106, even though investors are wary of oil-state issues; its delinquencies are only 5%.

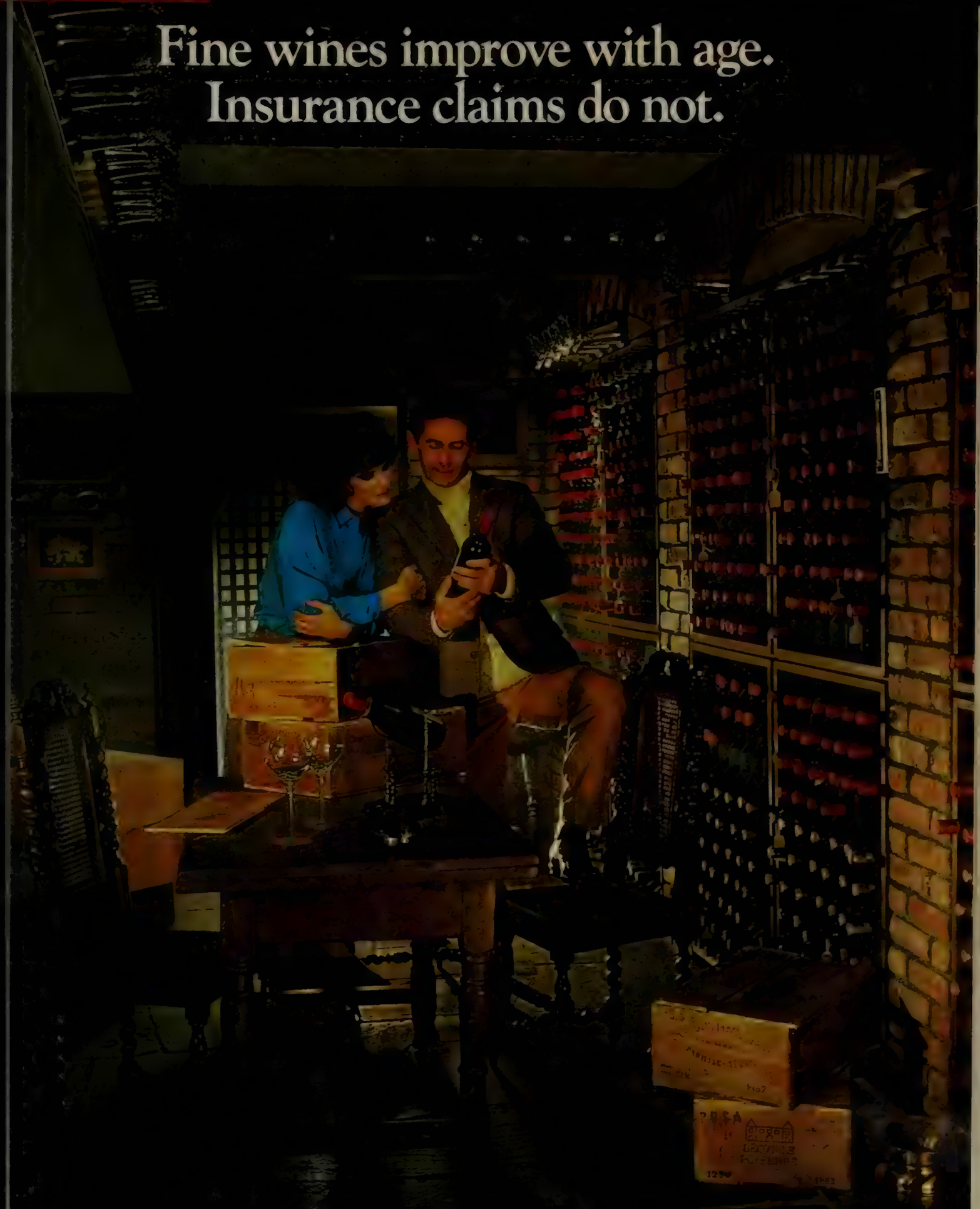
There are also bargains in local housing issues—bonds issued by shell entities set up to benefit from tax-exempt money. That's because critical information on delinquency rates, which state agencies happily supply, is nearly impossible to get for bonds like these. Just try finding a delinquency report from Cameron or Central Area or North Central—Texas localities that came to market with tax-exempt housing issues.

If you or your broker can get your hands on the delinquency reports, you will find that some of these obscure issues are bargains, even in depressed states. Others you wouldn't touch with a 10-foot pole. So walk carefully.

Meantime, what of Verex? The insurer stopped writing new business as of the end of last year and is now in "run-off." That means renewal fees on mortgage insurance, plus investment income on some $485 million in assets, must cover claims that are currently running at a $120 million annual rate.

Greyhound is hedging its bets. The company is trying to place privately $220 million of debt with warrants on Verex' holding company. Greyhound reportedly will get about $100 million of this, and about $70 million will go to pay Verex debts and $30 million to bolster Verex' reserves. Greyhound declined to comment. "The risks of ownership of Verex Assurance will be significantly transferred from Greyhound to the future debt holders of Verex Corp.," says Moody's insurance analyst, Jim Schmidbauer.

The bondholders should be so lucky. ■



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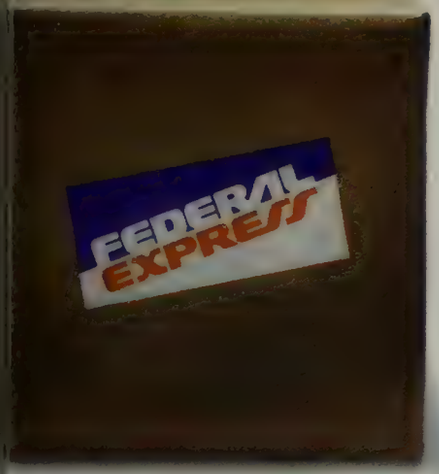

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Stars

The leaders of most small businesses would kill for John Barry's success. But for Barry, success creates its own problems.

Hull speed ahead

By Fleming Meeks

IN BOATING there's a thing called hull speed," says John S. Barry, president of San Diego-based WD-40 Co., the company that makes and markets that wonderful petrochemical and mineral spirits spray that attacks rust and looses the stickiest metal parts. Barry continues: "Given a hull design, you can only push it so fast, and then you get to the hull speed. After that speed, you can double the horsepower, but not much happens. [At WD-40] our art is to know how to get the hull speed without throwing money beyond that."

The metaphor is aptly chosen. Barry has the kind of problem the heads of many small companies would kill for: a product that is so successful that additional growth is difficult to achieve. In the 19 years since he joined the company, Barry, an MIT-trained manager, has pushed WD-40 close to the best it can do. The company's blue-and-yellow aerosol cans are currently found in an estimated 75% of U.S. households. Sales, $2 million in 1969, hit a record $71 million in fiscal 1987 (ended Aug. 31) and are expected to reach $80 million in fiscal 1988. This growth is all on the volume side. The company hasn't raised prices since 1981; between 1969 and 1981, WD-40's wholesale price rose only 43%, versus a 132% increase in the U.S. wholesale price index.

With fewer than 100 employees, WD-40 netted $11 million last year. Barry, who says shareholders know how to spend the money better than

Rocky Thies

John Barry

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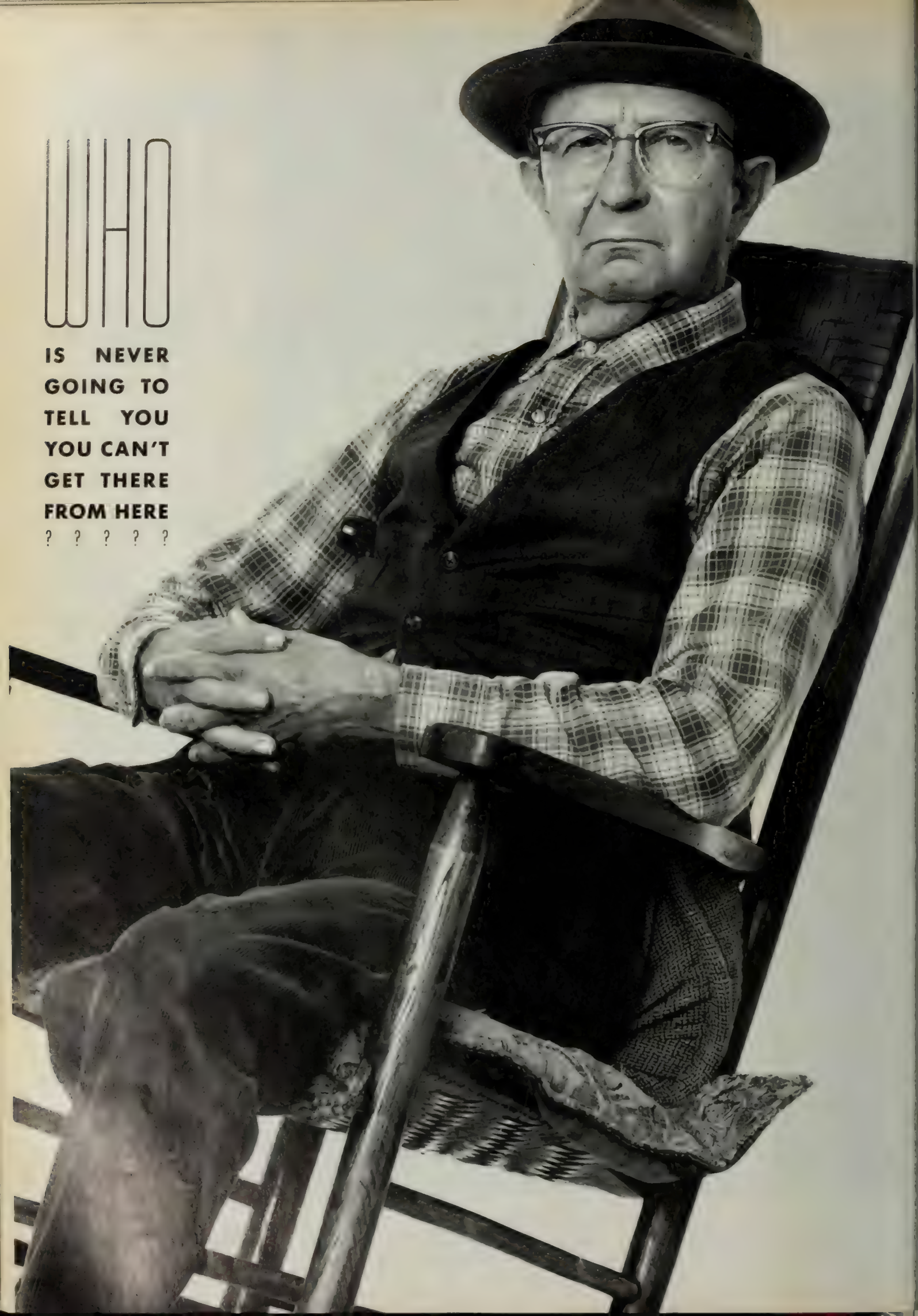
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[illegible] paid out $11 million in divi[illegible] doubly smart, given that per[illegible] income is now taxed less than [illegible]al gains. Earnings are expected to [illegible] 15 million ($2 a share) this year. The company has no debt and is sitting on $18 million in cash. Market value: $231 million, which is 15 times anticipated 1988 earnings and about 3 times sales.

All this is a stunning achievement. But there is a problem. Implicit in WD-40's valuation is the expectation of substantial future growth. If WD-40 is near its hull speed, from where will that growth come?

Unable to gun his profit machine, Barry, 64, is fine-tuning it. By November he will scrap the company's 60 independent reps and hire WD-40's own sales force. This will be more efficient, given the fact that WD-40 gets 40% of its sales from just 50 of its 12,000 accounts. "Because of mergers and acquisitions, there are fewer and bigger accounts," Barry explains, "and they want and deserve company attention." He says his own salesmen will also give him better feedback from the market. Otherwise, Barry will continue to use WD-40's proven, if unglamorous, marketing techniques: constant mailings of samples to potential accounts, two and sometimes three trade shows a month and a steady stream of ads in magazines ranging from *TV Guide* and *Reader's Digest* to *Locksmith Ledger* and *Progressive Grocer*.

Overseas markets offer potential. But here, too, Barry moves deliberately, not hastily. In 1986 he did not renew the contract with the company's U.K. licensee. Instead, he built WD-40's own plant in Milton Keynes, outside London. Last year sales in the U.K. and Europe were $10 million, operating earnings $3 million (up from license income of $450,000 in 1985). Encouraged by foreign acceptance, Barry has begun to tap Australia and the Pacific Rim.

But for Barry to push WD-40 ahead significantly, he would have to add a second product, and succeed with it. His own success has taught Barry that the failure rate among new products is high. Over the years, WD-40 has buried more than 200 competing products, and Barry openly concedes that [illegible]sically WD-40 is practically indis[illegible]ble from 3M's Q4, Borden's [illegible] Valvoline's 1-2-99. Yet it is [illegible] gets the majority of the bu[illegible]

Barry [illegible] that he does want to try his hand [illegible] another product. He adds that he has looked at over 100 ideas, including an industrial cleaner developed by the Adolph Coors' people. To Barry's credit, he hasn't jumped. He owns 6% of WD-40's stock, and other insiders own another 19%, so it will be hard for an acquisitor to make Barry jump against his will. The huge amount of goodwill in WD-40's market value, moreover, detracts from the company's value as an acquisition.

"We're not going to buy something just to buy something," Barry vows. "We want another WD-40." Doesn't everybody? ■

The Up & Comers

Lessons

Lots of young entrepreneurs in a hurry take on lots of debt, then ease the load by going public. Animator Andrew Heyward is finding the strategy not so easy.

"Unfortunately, the market is horrendous"

By Lisa Gubernick

In the early 1960s, when his classmates were making molecule models for the eighth-grade science fair, Andrew Heyward says he developed an electronic system for handicapping racehorses. The model won Heyward no awards, nor did he ever actually use it to place a bet. But it did give him the thrill of sailing against convention.

Today Heyward, baby-faced and horn-rimmed at 39, is again flouting convention, this time as the chairman of DIC Enterprises. DIC is an animated-cartoon producer based in Burbank, Calif. In a weak market, DIC has emerged as something of a powerhouse. For the 1988-89 season, DIC

Terry John

DIC Enterprises' Andrew Heyward
"We were hungrier than the rest."

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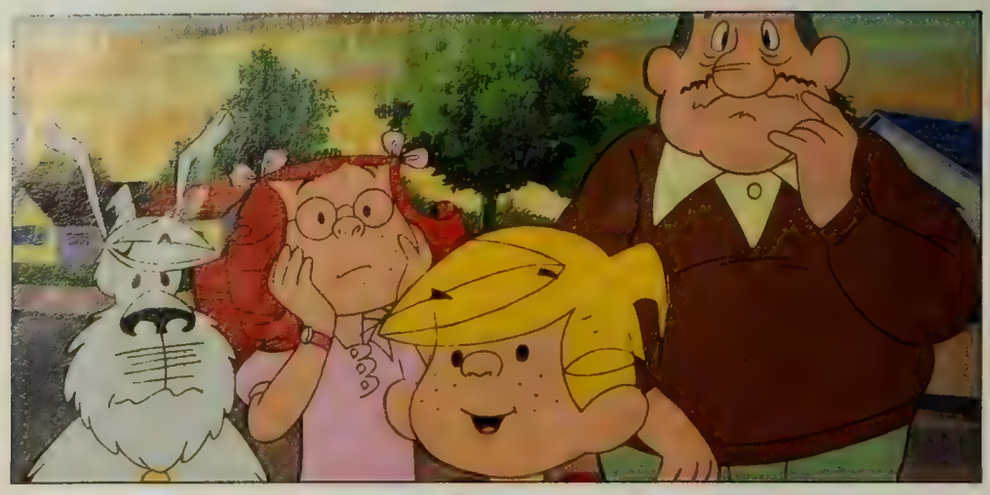

DIC-produced Dennis the Menace (and Margaret)
Willing to be guns for hire.

will have Saturday morning series on all three networks.

Its eight-show lineup includes animated versions of *ALF, Alvin and the Chipmunks* and *Beany and Cecil.* Audited revenues of the privately held company (management controls 50% of the stock, Prudential Insurance and Bear, Stearns the rest) climbed from less than $1 million in 1982 to over $80 million last year, when DIC earned $12.6 million (before taxes and interest payments).

"They do something almost no one else does," explains Lou Scheimer, head of Filmation, another animator, which produces the *Ghostbusters* and *Fat Albert* cartoons. "They are guns for hire; they will do a series even if they don't have a vested interest."

What Scheimer means is that Heyward will, if necessary, give up domestic ownership rights to the programs he produces. Few American creative types will do this, but then, DIC was founded in the early Seventies by a Frenchman, Jean Chalopin. Chalopin hired Heyward, son of a Hanna-Barbera executive and a one-time story writer for the cartoonmaker, to introduce him around Hollywood in 1981. Within a year, DIC arranged to produce *The Littles,* a series of animated specials with ABC, and relinquished domestic rights to ABC. "We were hungrier than the rest," Heyward explains. DIC barely broke even on production fees but had held on to the European rights and was able to turn a $1.2 million profit on *The Littles* by peddling it overseas.

From the beginning DIC was and [illegible] is nonunion. Even though competitors Hanna-Barbera and Marvel Productions, like DIC, do nearly all their drawing in Asia, sound effects and other postproduction work is still done in the U.S. Using union labor for this work can increase overall production costs by 15% to 20%. By keeping out unions, Heyward has made DIC one of the lowest-cost animation houses in Hollywood.

Heyward's problem isn't in his production methods. It's in his financing. At the end of 1986, Bear, Stearns and Prudential Insurance financed Heyward's $65 million leveraged buyout of the company from founder Chalopin. Debt service cost Heyward $7.5 million last year, leaving the company with $4.9 million in net income. The debt, concedes Heyward, has "left us growth-constrained." He says he would love to take DIC public (the proceeds could be used to pay down some of that debt). But having been burned on Hollywood offerings like Fries Entertainment and De Laurentiis Entertainment Group, investors are giving young entertainment companies a wide berth.

"Unfortunately," Heyward sighs, "the market is horrendous." And because he often gives up domestic rights, Heyward will have a hard time creating a valuable library of old cartoon series to rival Hanna-Barbera's, which includes *The Flintstones* and *The Jetsons.*

Last winter Heyward attempted to merge with Chatsworth, Calif.-based Computer Memories, a publicly traded defunct disk-drive maker with $25 million in its coffers. But the deal fell through after a group of dissident Computer Memories shareholders raised objections to DIC's hefty debt.

Heyward's competitors give him high marks. "DIC came in late, making deals no one thought could be made," says Margaret Loesch, head of Marvel. "They brought a creative, risk-taking attitude to the animation business, and that's what it takes to make it."

But it also takes a healthy balance sheet. With a debt-to-equity ratio of nearly 7-to-1, DIC's finances are on the dicey side. ■

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Risk Takers

Meet Thomas C. Foley, another young man who has used modern debt financing to turn a small investment into a huge fortune in a short time.

And who's to say he's wrong?

By John H. Taylor

In May 1985, Thomas C. Foley was 33 and had worked out the arithmetic on a leveraged buyout of the Bibb Co., a Macon, Ga.-based sheet and carpet yarn manufacturer with $225 million in sales. Foley had a special reason for wanting to do the deal. Growing up in Chicago, he had watched his father struggle for the top spot at Florsheim Shoes, only to be denied because he was not a member of the owner's family. For Foley, the message was clear: to control your fate, own your own company. He later went to Harvard's business school (class of '79), determined to heed that message.

Foley then joined McKinsey & Co. and in 1981 moved to Citicorp's venture capital division. That's where he was when he found publicly traded Bibb Co. It was suffering from declining sales and deteriorating equipment, and several board members and large shareholders were interested in selling the company. But when Foley presented the $76 million deal to his employers, the senior bankers turned it down.

Foley didn't flinch. If Citibank wouldn't do the deal, he would. He recalls: "I was single, had few bills, and figured that if I didn't take this chance, when was I ever going to?"

Foley quit the bank and talked bankers, friends and relatives into lending him over $400,000 for equity in the Bibb buyout. He put up $40,000 himself, his life savings. Then he began a tortuous search for a lender. Five banks turned him down. Finally, in September, bankers in another part of Citibank, its Citicorp Industrial Credit unit, agreed to finance the Bibb deal—at 2.5% over prime.

Foley was on his way. First priorities: raise money and cut costs. Even before the buyout closed in October 1985, Foley struck a deal to sell Bibb's unprofitable carpet yarn division for $11.5 million; that lopped the payroll by about 1,000. He scrapped management's plan for a $35 million capital expansion program—more savings—and contracted with two mills to supply Bibb with woven goods. He brought in new managers who responded quickly to Foley's incentive compensation plans. More than $7 million in bonuses have been given.

Neil Leifer

Thomas C. Foley of NTC Group
He was determined to control his fate.

As if from a textbook, Bibb worked as Foley said it would. Pre-Foley net earnings were $6 million. Last year: $11 million.

Bibb didn't satisfy Foley's ambitions. A year after buying Bibb, he made his second acquisition: $54 million (sales) T.B. Wood's Sons Co. of Chambersburg, Pa., a well-known but sluggish maker of industrial transmission devices. Foley paid $40.5 million and again overhauled management, modernized inventory controls and spread a lot of bonus bucks around. Again, operating profits doubled, to about $9 million in the fiscal year ended Apr. 2.

From Woods it was on to a giant: J.P. Stevens & Co. Last spring, West Point-Pepperell and Odyssey Partners were locked in a fight to take over Stevens. Foley, who already had agreed to buy some of Stevens' properties from West Point-Pepperell if it won the battle, contacted a friend at Odyssey to see if a deal could be worked out. All three players eventually called a truce and divided Stevens' $940 million in assets among themselves; as a result, Foley's Bibb Co. now has a 12%-to-15% market share in the sheet and towel business. The Stevens' deal doubled Bibb's annual sales to a projected $440 million for this year. Operating profits are expected to reach $40 million.

Foley's vehicle for owning Bibb, Woods and the J.P. Stevens assets is NTC Group, a private holding company of which Foley owns 92%. Operating profits are expected to hit $50 million this year, on sales of $500 million. Valuing NTC Group at around 12 to 13 times projected net income, Foley's stake is worth somewhere around $200 million.

Is there a snake in this profitable Eden? There is. NTC Group owes the banks a staggering $230 million, which is 10 times NTC's equity. Foley defends himself by noting that debt service comes to $25 million a year, about half of NTC's projected operating income. He has, he adds, entered into interest rate swaps to protect NTC from rate volatility. If rates hit 15%, Foley's annual interest expense would climb by $5 million.

But nothing will protect Foley, or his creditors—or any of the other young and highly leveraged conglomerators—from a serious recession. Foley acknowledges this danger, but says the bet-the-ranch days of the Bibb deal are over: "Now that I've made it, I will not take a risk that will blow everything I've built here." That is his hope. ■

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Ford's 1989 Thunderbird could well be next year's style king, the car folks gape at. And in Detroit he who sets the style can sell cars without giving away the profits in rebates.

Supercharged

By Steve Kichen and Jerry Flint

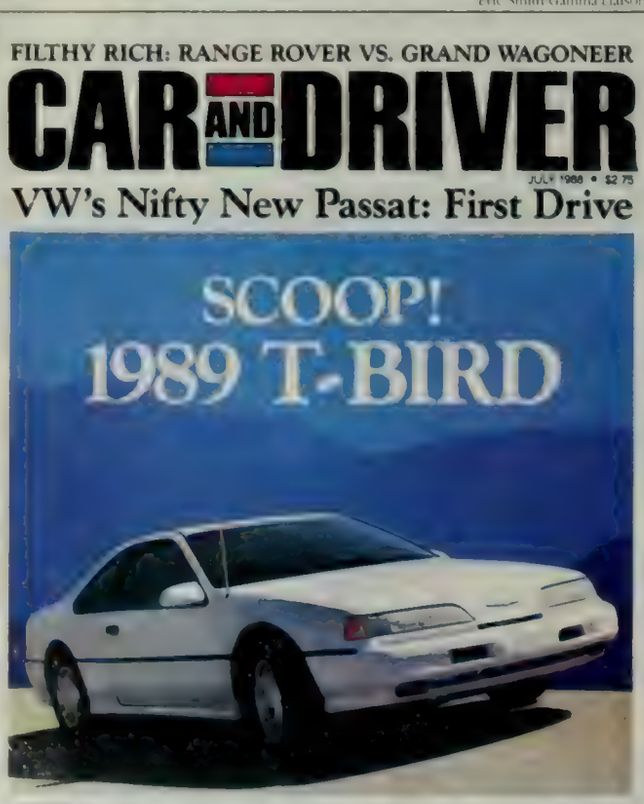
EVER SINCE WE STARTED to pull ahead and chart our own course, we really haven't been paying a lot of attention to what those guys are doing." That's Fred (Fritz) Mayhew talking, Ford Motor's number one car designer.

Well, Mayhew and the gang at Ford styling are still ahead and still not paying too much attention to their rivals. Their 1989 Thunderbird is the flashiest new car coming out this winter—and one of the fastest.

Winning the styling wars doesn't mean just a pat on the back from car magazines like *Car and Driver* or *Motor Trend*. Hot styling means hot sales. Hot sales mean the production lines run overtime and the cars sell without having profits disappear in rebates and giveaway interest rates. Ford, for example, doesn't have to offer rebates with its new-look Continental and Probe cars.

The 1989 Thunderbird—and its sister, the Mercury Cougar—is already getting a reputation among auto writers as the must-have one. *Car and Driver* put the T-bird on the cover of its July issue. The car should sell in the $16,000 to $20,000 price range, which means that gross profits, if the car is as popular as seems likely, could run in the area of $4,000 per unit. Bird/Cougar sales have topped out at about 275,000 units annually in recent years. Given a little extra volume, T-bird could produce about $1 billion a year in gross profits.

Eric Smith/Gamma Liaison



Fritz Fred Mayhew and his Thunderbird
He wants the man on the street to say, "Hey, what was that?"

That kind of money doesn't roll in immediately. Ford is retooling its Lorain, Ohio plant for the Bird, which is on a new rear-wheel-drive platform. This means little production in the fourth quarter, although analysts still figure Ford will earn more than $5 billion this year. Ronald Glantz, an analyst at Montgomery Securities, predicts $5.5 billion, or $11.50 a share.

The new Bird comes out in December, Ford's lucky month (Taurus and Continental came out in December). The production startup probably will be slow in the first half of next year, and Ford probably won't be able to build enough to meet demand, just as it hasn't been able to build enough Continentals or Probes and has been forced to run Taurus on almost continuous overtime. Heavy, steady overtime production strains workers and can lead to car defects, but it's also the way to make big money.

Who could Thunderbird and Cougar hurt? Normally, competitive cars would be the Chrysler LeBaron and Pontiac's new Grand Prix and similar Buick and Olds cars, or the more expensive Buick Riviera and Olds Toronado. But this Bird just might also be Detroit's long-sought import fighter.

"We see the car appealing to a much broader range," says the designer. "It's surprising when you get a new design that is very fresh, you get people in there looking at that car you'd never expect.

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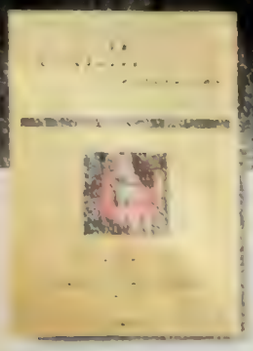

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[illegible] hoices were faced; tough decisions were made. Subsidiaries with annual sales of $3 billion, including the company's nationwide bus line, were divested. At the same time, new businesses with excellent growth and profit potential were established or acquired

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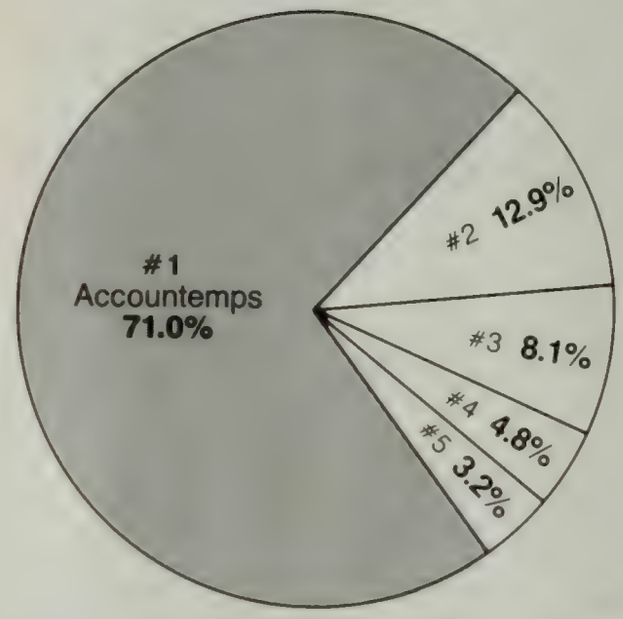

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Just like with Taurus and Sable, we are going to pull in people that we'd like to think about this car—the guy who looks at the Honda Legend, the guy who's thinking of a BMW or a small Mercedes. You'd like to overlap a lot of segments if you can."

The new Bird has the look of a BMW, a sharp modification from the jellybean styling that gave Ford the leadership with Taurus. "There was some concern in the press when we started the move toward the aerodynamic look that all of our cars were going to look the same. I think this Thunderbird proves this isn't true. That was one of our design objectives and continues to be: that each of our new cars would have a distinct image, make a strong statement, a unique statement and still have that same kind of aerodynamic design purity. So they are slippery but they are not similar," says Mayhew, whose formal title is chief design executive for North America. He succeeded Jack Telnack, who moved up to vice president of design after doing the Taurus.

"There was some concern in the press when we started the move toward the aerodynamic look [like the Taurus'] that all of our cars were going to look the same. I think this Thunderbird proves this isn't true," says Ford's chief designer for American cars, Fred Mayhew.

Ford is putting a supercharger in a the Super Coupe model, the first American supercharger in a quarter-century. Zero to 60mph could take only seven seconds, and top speed is around 145mph from the 210 horsepower supercharged V-6 engine.

What's new from the competition? Not much this winter. GM will build the first of its new midsize four-door sedans next year, but they won't be on the market until midyear. Chrysler has midsize sedans coming out this fall, but the styling is conservative. Ford wanted a car that gets whistled at, and almost certainly has one.

"Instant recognition is the key when you are trying to break through with a new design—to have something that is instantly recognizable on the road," says Mayhew, who graduated from Carnegie-Mellon with a fine arts degree. "Taurus and Sable had that, the 1983 Thunderbird had that. We are hoping that when you see this car out of the corner of your eye, you'll say, 'Hey, what was that?' " ■

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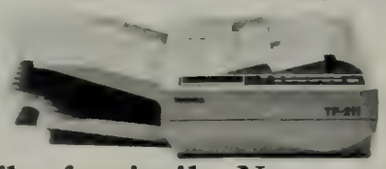

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For more than ten years Quaker State was the biggest factor in motor oil, but no one can get careless these days.

Run over by the competition

By Kerry Hannon

QUAKER STATE, dazed and battered, is a crash victim.

For the last ten years it was the market leader in motor oil, steadily racking up sales and earnings gains that doubled its revenues and profits. Only two years ago the Oil City, Pa. company was boasting record earnings of $2.01 a share, or $50.3 million on revenues of $926.8 million.

Then it hit the wall. Hard. Last year Quaker State recorded its first loss ever, $1.82 a share, and surrendered its number one market position to Pennzoil. This year Quaker will be lucky to earn 50 cents a share. In the last two years Quaker's overall operating margins collapsed from 12.8% to 6%. Cash flow, $130 million a year in 1985, is now half that. In the last 15 months the company has switched chief executives three times.

That's one more example of the dangers of complacency in this wild and woolly economy.

In 1986 Quaker was making a fine motor oil for the big, low-rpm, eight-cylinder engines that had long dominated on American roads but were then dwindling in number. The competition was making a higher-quality oil with high-tech additives, suited exactly for modern, smaller, hotter-running auto engines.

Pennzoil (1987 revenues, $1.8 billion) moved in with the new products and was quickly joined by other industry big hitters, including Ashland Oil (1987 revenues, $7.3 billion), which sells Valvoline. Everyone but Quaker, it seemed, was spending heavily on packaging and advertising, offering rebate programs to retailers as well as to consumers, and slashing prices.

Yes, Quaker spent some $280 million in the last four years to expand its ten-minute oil and filter change business, Minit-Lube. But Pennzoil did it better and faster. Quaker now has 229 units, while Pennzoil is the featured major oil brand in about two-thirds, or 1,800, of the 2,700 quick-change motor oil centers, including the biggest, Jiffy Lube.

Bruce Fee

Quaker came up with an astute marketing innovation. It brought out a plastic, easy-pour container. But its "plastic can" was round and hard to stack. So when Pennzoil, 18 months later, produced a square one that fit more product on tight shelf space, retailers and gas stations pushed Quaker aside.

"We made some bad calls," says Jack Corn, 58, Quaker's new chief executive, who was pulled out of retirement to take the reins of the company in July. "We read the situation wrong and didn't meet the competition head on," he says.

That's putting it mildly. In the last two years Quaker's market share has slipped from 22% of the $2.2 billion industry to 18%, while Pennzoil's share has climbed to around 23% from 18%. Oil giants like Texaco, Burmah Oil and Ashland, each now holding about 10% of the market, have gained ground.

In its attempt to recover and survive, Quaker has been driving off in several directions at once. It has bought an auto insurer, Heritage Insurance Co., for example, and a company that makes headlights for trucks. These subsidiaries now pull in 12% of sales but 50% of operating profits.

Realizing that it was far cheaper to buy oil on the outside, Quaker plugged and abandoned 846 shallow wells and ceased exploration and development. The result: $122 million in writeoffs last year. It now produces only 8% of its crude, down from 24% in 1983. In the last year, too, it has beefed up advertising and promotion and has reformulated its motor oil to try to catch up with the market.

When a company bleeds, the sharks gather. Quaker shares have been in and out of play twice already this year. The most recent offer, of $26.50 a share by Ardshiel, an investment bank, was withdrawn in late June. Ardshiel's hopes for a friendly takeover were rebuffed by Quaker, but Ardshiel may yet reappear in a hostile bid.

Analysts say the breakup value of the company is around $35 a share and that the sale of the profitable subsidiaries would be more than adequate to finance a takeover. So what was once a blue-chip stock is now an item for the scrap merchants. That's the way it goes these days. You rarely get a second chance. ■

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Connecticut's Citytrust Bancorp has shown impressive loan growth—and a remarkably large amount of lending to insiders.

Know thy borrower

By Robert T. Grieves

"I'M HAVING A LOT of fun with the bank," says Ernest C. Trefz, 55. Fun is hardly the word for it. Trefz is the largest stockholder of the Bridgeport, Conn.-based Citytrust Bancorp, as well as a member of its board of directors and loan committee. He likes the fact that he can easily walk the one block from his personal business office to the bank headquarters in the depressed downtown of this city of 142,000. He enjoys the prestige that comes from controlling one of the state's largest banks, with offices in 28 communities.

Adding to Trefz' fun is that he is also one of the biggest insider borrowers from the $2.6 billion (assets) bank. There's nothing illegal about insider lending, but it's something that prudent bankers prefer holding to a minimum. Not Citytrust, whose insider loans have averaged 11% of capital over the last four years, putting the bank in the top 10% of all U.S. banks in insider lending.

Trefz is a Bridgeport businessman with varied holdings, including 43 McDonald's franchises in Connecticut and New York. How did he get from fast food to banking? He spotted an opportunity in the mid-1970s when Citytrust was in trouble from bad real estate loans. Trefz stepped in with an estimated $1 million capital infusion in return for what has since become a nearly 15% equity stake in the company. He also got a seat on the Citytrust board.

With Trefz on the board, Citytrust embarked on an aggressive loan policy that helped pump assets from $1.2 billion in 1983 to $2.6 billion currently. But its return on average assets fell from 1.01% to 0.87%.

The aggressive lending has also taken a toll in asset quality. Citytrust's nonaccruing assets now total 4.11% of the entire portfolio—the highest level of any major commercial lender in Connecticut—reports Jack Rooney, New Haven-based banking analyst for the investment firm of Legg, Mason. In the second quarter, bad real estate loans forced Citytrust to announce a $6.4 million writeoff; 1988 earnings so far are $11.5 million.

The fastest-growing segment of Citytrust's loan portfolio is in real estate, and Trefz is a major investor in Bridgeport real estate. Loan officers at

IT TOOK NAVISTAR TO MAKE THE BIGGEST MOVE IN U-HAUL'S HISTOR

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Citytrust tell FORBES that the bank lent Trefz around $10 million earlier this year to buy the ailing 234-room Bridgeport Hilton hotel. The hotel has never turned a dime of profit and recently showed occupancy rates of 25% to 35%.

The hotel is only one of Trefz' apparent speculations on a turnaround in the old industrial city's blighted downtown. Records in the Bridgeport Town Clerk's office show that Citytrust lent Trefz and his associates a total of $8 million in 1986 to purchase other downtown properties in Bridgeport.

In all, it's been a sweet deal for Trefz. His original investment is now worth over $26 million—and he has a friendly, convenient place to borrow for his deals.

Citytrust recently listed its shares on the New York Stock Exchange—another step toward the big time. But is its policy of heavy insider lending consistent with being a big-time bank? Replies Trefz: "I personally guarantee all my loans." ■

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In an effort to revive Denver's depressed economy, the city fathers plan a new airport and convention center as part of a $3 billion building plan. Even so, the road back will be long and hard.

Rocky Mountain low

By Rick Reiff

MARK BALLENGER, with his ebullient delivery and infectious laugh, could sell parkas in Jamaica. But he has a harder task: hawking office space for Coldwell Banker in downtown Denver, where the 29% vacancy rate is the highest of any major city.

Want to lease space in the glistening, glass and limestone, 43-story, three-year-old office complex at Broadway and 20th Street? Ballenger offers it for $12 a square foot, laid out your way, and a $1,999 bonus to the agent who brings you through the door. With only half the building filled, that rent is just one-third of what space there brought in 1985. If you want to buy instead, the opening figure for the repossessed property is $85 million, $50 million less than what it cost to build.

Is Ballenger depressed? Not at all. He's infected with the local mile-high optimism. "In two or three years," he says, "Denver's gonna have everything going for it that it never had."

But not everyone shares his optimism. Most of the Denver region's industries—agriculture, energy and Rocky Mountain [illegible]sm—are depressed. Denver has lost 29,000 jobs in the last two years and, for the first time in two decades, more people are moving out than are moving in.

Denver is home to comparatively few major corporations. The only one ranking among the largest U.S. companies is US West Inc., one of the regional phone companies spun off in the 1984 breakup of AT&T. It places 77th on the Forbes Sales 500 list. As for the local companies, many are in the sick energy sector. Even rising oil prices probably won't fully revive Colorado's energy business. "The industry may get healthy, but a lot of the money will be invested in looking for oil in other parts of the world," says James Wallace, president of BWAB Inc., a Denver-based oil producer.

Coldwell Banker real estate broker Mark Ballenger
His buildings are half full, not half empty.

Denver clearly needs new businesses. To help attract it, the city fathers are spending close to $3 billion. By 1990 there'll be a 300,000-square-foot, $300 million downtown convention center, to replace the drab 100,000-square-foot Currigan Hall. Nearly $1 billion has been earmarked for a 76-mile beltway linking the interstates around Denver. And those big-spending city fathers say they'll also find the money for a new baseball stadium if the city succeeds in acquiring a major league franchise. The Chamber of Commerce has earmarked $8 million for industrial promotion.

Grandest of all, though, is the $1.7 billion that will be spent on the first phase of a new airport to replace the antiquated Stapleton International. Voters in neighboring Adams County have okayed Denver's annexation of the needed land, paving the way for a bond issue to finance construction. The so far nameless jetport, to open by 1995, will be the first to be built from scratch in this country since the Dallas-Fort Worth International Airport in 1974.

All this activity assures Denver 18,000 or so construction and support jobs over the next seven to ten years. But it remains to be seen whether all this boosterism will be enough to enable Denver to compete with a lot of other cities for convention business, baseball fans and new industry.

Backers of the new airport argue that the field will make Denver, currently the nation's fifth-busiest air hub, the second busiest, projecting that traffic will rise to 55 million passengers a year from the 34 million now served by Stapleton.

But there's no obvious reason this should be so. Denver assumes the new field will attract a third hub airline in addition to United and Continental, but no airline plans such a hub. In fact, intense competition at Denver already makes many routes there unprofitable. Stapleton's traffic is actually declining, off 7% this year after a 2% drop in 1987. "You're talking religion, you're not talking economics," says Donald Bain, a local lawyer who thinks the city should consider a more modest expansion at Stapleton.

As for the convention center, 20 cities, including San Francisco and Atlanta, already have centers capable of handling the shows Denver wants. Even with the new facilities, Denver will have to fight for every one.

No question, with its majestic mountains and relaxed western lifestyle, Denver still has a lot going for it as a place to live and do business. And there are bright spots amid the gloom. Hometown hero US West has picked nearby Boulder for a $50 million research facility that is expected initially to employ 450 people.

"The worst thing we could do is sit back," says Mayor Frederico Pena. If Denver did not attempt such projects, argues Tucker Adams, chief economist for United Banks of Colorado, "we'd just settle back into a sort of oblivion." They are both right, of course, but for a long time to come Denver's early Eighties high will remain little more than a Rocky Mountain sigh. ■

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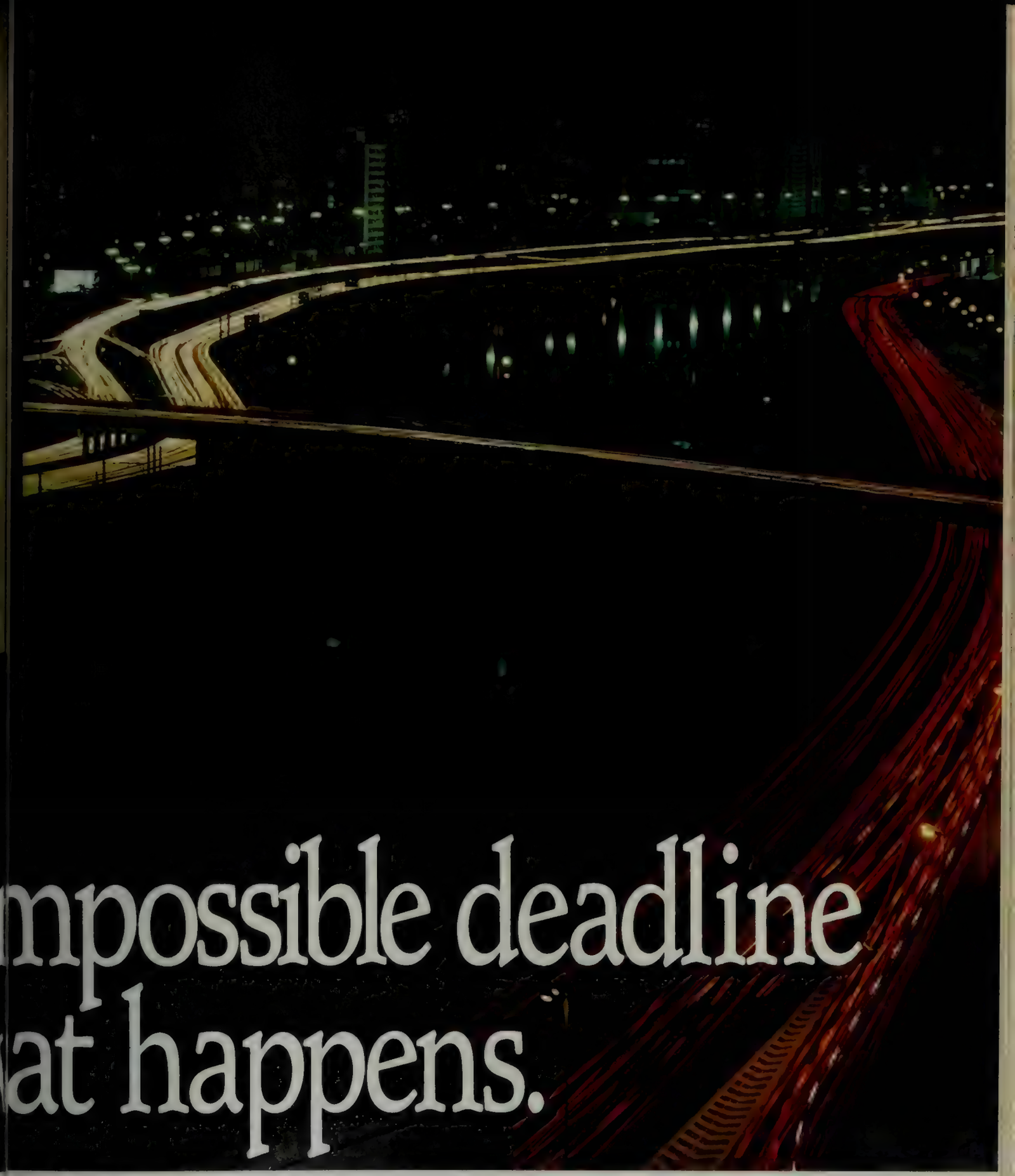

the people in Brazil, or the opportunities you
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What's the biggest threat to corporate solvency? Bosses' oversize egos, says company doctor William Nightingale.

Doctor tells all

By Laura R. Walbert

THERE SITS ON William Nightingale's conference room table an unusual trophy. It is a miniature garbage can and bears this label: "Nightingale's Garbage Disposal and Reclamation Co." The kind of waste Nightingale engages in, however, is neither industrial nor household. His trade is in financial garbage. He reclaims corporate garbage much the way a doctor cures sick people: first by diagnosing the problem, and then treating it. Nightingale & Associates is a consulting firm often hired by commercial banks to turn around or liquidate companies that are in default on bank loans.

When you deal with sick companies all day, you learn a lot about what makes companies sick—and how to avoid sickness. What's the biggest source of contagion? The boss' ego, says Nightingale. Says he: "It's very difficult for someone who built the business up to downsize." He points to one of his firm's current patients, Worlds of Wonder, maker of Teddy Ruxpin, the talking bear. The company rocketed from nothing to more than $300 million sales in two years. "That was what [Chief Executive Donald] Kingsborough wanted, but it was his problem. He kept looking at the revenue line and not the bottom line," says Stephen Hopkins, a Nightingale partner.

Worlds of Wonder had inventory problems—too much, too late for the 1986 Christmas season. It should have sharply curtailed production. But that would have meant lost sales and lower revenues. So management decided to continue production into early 1987, thinking heavy advertising would move the toys off-season. Says Hopkins, "In 1987 liabilities went from $118 million to $307 million. Of that $189 million increase, $118 million was put into inventory that didn't sell, and another $40 million or so was spent on advertising to move those products, over and above the normal advertising."

Inevitable result: a Chapter 11 filing—and creditors called Nightingale

Louie Psihoyos

Stephen Hopkins, William [illegible] and Tor Arneberg, Nightingale partners
"We are successful because we keep ourselves very nervous."

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& Associates to the rescue.

How does Nightingale tackle a problem company? First it diagnoses the problem. Says Nightingale, "We sit down one-on-one [with middle management]. The people generally know what's wrong, but someone is not listening." Nightingale's people listen and often catch the message that the chief executive ignored.

Nightingale got into the turnaround business almost by accident. Before founding Nightingale & Associates in 1975, Nightingale worked for underwear maker Hanes Corp. As its chief financial officer he hired a consulting firm that convinced Hanes management to make an investment in the Bali Co., a women's apparel manufacturer. "I quickly realized Bali had real financial troubles," says Nightingale. He took over as president of Bali when the company defaulted on its loans. "I was eyeball to eyeball with several bankers who were putting the screws on me. You've heard the story about taking your keys out of your pocket and throwing them on the table and telling the bankers, 'You run it.' After having been there about two months, I did it," says Nightingale. The bankers backed down and told Nightingale to do what he thought best.

He quickly found that the consultants who recommended the deal had violated what is now a Nightingale maxim: Don't believe everything you read in a financial statement. Bali looked profitable on a consolidated basis, but that told only about the past. For the future, problems were building. Some recent acquisitions were losing money, and a new distribution center was overbuilt. Nightingale dismantled part of the distribution center, eliminated some product lines and poured money into the basic business. Hanes, a division of Sara Lee Corp., survives. Bali was later bought out in full by Hanes.

A current Nightingale client is Evans Products, a Victor Posner company that went broke owing over $1 billion. Nightingale people quickly identified a central problem: too little delegation of authority. Evans had required all checks of $500 or more written in North America (except at its former Grossman's subsidiary) to be cosigned at headquarters. "They had shopping carts full of checks, and those carts would tend to get lost," says Nightingale. "The week we took over we ended that."

Nightingale has seen enough of the trouble caused by big egos and by complacency to avoid both. "I think we're successful because we keep ourselves very nervous," he says. As befits an outfit whose job is to render efficient what is inefficient, Nightingale itself is a lean operation. There are four full-time partners in the small office atop a sportswear store in suburban New Canaan, Conn.

How profitable is the business? Very. On the Worlds of Wonder deal Hopkins is getting $1,500 a day to act as chief executive officer, plus 3% of net paydowns of debt. If Hopkins can collect even half the $300 million owed, Nightingale stands to garner $4.5 million. ■

Switzerland's hotels and restaurants may be superexpensive these days, but a lot of Swiss stocks are dirt cheap.

Werner Rey's happy hunting ground

By Richard C. Morais

WERNER K. REY has not yet made a billion dollars, but he's only 44 and getting close. In just over ten years, Rey has amassed a personal fortune worth over $850 million. He expects to make a lot more money in the years ahead as Europe's financial markets become more like those of the U.S.

[illegible] first opportunity to close a [illegible] gap began taking shape over lunch with a British investment banker in 1973. Rey was 30. The banker told Rey that the prestigious Swiss shoe company Bally was for sale. Rey, who had recently made some money arranging financing for an Algerian cutlery factory, bought 15% of Bally for $2.6 million.

Later, once inside, Rey and his auditors discovered Bally's assets were worth close to $330 million—nearly 20 times the company's initial market capitalization. Undisclosed and unvalued was valuable, debt-free real estate in New York, London and Zurich. It turns out that founder Max Bally had an old-fashioned aversion to dealing with banks and landlords; Bally owned all the premises it occupied and was virtually debt-free. Recalls Rey: "Not even I initially realized that Bally wasn't a shoe company but a real estate company."

Rey, with a group of silent backers, made an offer to buy the shares at above-market prices. It was the first hostile raid in modern Swiss financial history. Zurich's stuffy business establishment treated the young financier as a leper. The infighting got nasty. At one point Rey put 15 of Zurich's major law firms on retainer to keep them from working for Bally's management and friends. After a three-year fight, Rey had 51% of the stock and took control. Once in control, Rey was in trouble: He knew that to make Bally profitable he would have to close factories in high-wage Switzerland and move some of the shoe manufacturing to countries like Italy. "The company had to close Swiss plants to turn around," Rey explains. "After the [bad publicity from the] takeover, this was politically too difficult to do." He sold Bally within the year, to Swiss arms manufacturer Oerlikon-Buehrle.

He sold out and smiled all the way to the bank, personally netting $35 million. He then went on the prowl again. In 1981 Rey paid $10 million for control of a little-known German engineering consulting firm called Inspectorate International. Using Inspectorate as a base, he bought small and usually ailing companies he could turn around. Today Inspectorate has revenues near $900 million from such service businesses as computer leasing, security and quality control.

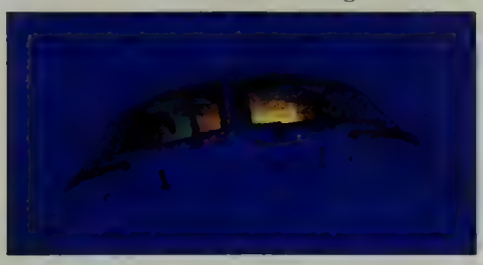
Inspectorate is in turn controlled by

THE FINE ART OF FLYING

by Kolar.

«Je suis la Beauté - Paris». When we asked the Czechoslovakian artist, Kolar, to interpret The Fine Art of Flying he responded with his famous, multi-image rollage technique. "Paris", he reflected, "is a love affair with a fascinating woman - she will open many worlds to you and yet always draw you back". Air France leaves Paris for the world more than 150 times every day. And every flight is a love affair.

Connections make the world go round.



THE FINE ART OF FLYING

AIR FRANCE

PUBLICIS E 4472

Werner K. Rey of Switzerland's Omni Holding
"Markets in Switzerland and Germany are substantially undervalued."

Rey's top holding company, Omni Holding. Omni also owns a newspaper and magazine publisher (Jean Frey), a machine manufacturer (Ateliers-de-Vevey) and substantial interests in financial services (Cantobank), tourism, engineering and real estate.

Omni Holding went public in July at the equivalent of $670 a share, and now trades on Swiss exchanges at $687 a share, a small discount from its asset value. Rey's 73% of Omni's 3.3 million bearer and registered shares outstanding is worth around $600 million; a real estate portfolio he kept for himself is worth about $250 million more.

Rey, the son of a middle-class patent attorney, prepared for his career by apprenticing himself to small banks, to Chesebrough-Pond's Geneva office and, briefly, to Bernie Cornfeld's Investors Overseas Services, where he was a salesman.

What stocks is Rey now buying? [illegible]itely declines to answer the [illegible] But he does say, "Markets [illegible] and West Germany are [illegible] undervalued." Clearly, he thinks there are lots of potential Bally [illegible]

Zurich's Bank J. Vontobel & Co. recently examined international accounting practices and market valuations for hundreds of companies and came to a conclusion similar to Rey's: that Swiss equities "are the lowest valued of any market worldwide." Of the 320 Swiss companies Bank J. Vontobel looked at, nearly a third were trading at 20% to 50% of their intrinsic values. The best bargains were insurance companies like Baloise and Swiss Re; manufacturing companies like Sulzer Brothers and Oerlikon-Buehrle; breweries like Huerlimann and Eichhof.

Rolf Bornhauser, a Bank J. Vontobel analyst, singles out Holzstoff Holding, Inc., a 125-year-old Basel-based packaging and paper company with 1987 sales of $500 million. Holzstoff's real estate, plant and equipment are carried on the books at $125 million, but the plant and equipment alone is insured for $870 million. Allowing for Holzstoff's real estate and its plant and equipment, Bornhauser figures the company is worth $583 million—as against its recent market value of $220 million.

There is no connection between Rey and Vontobel, but it is interesting that they have both reached the same conclusion. Hidden reserves, carrying real estate at cost, depreciating plant and equipment quickly, and restrictions on foreign ownership of Swiss securities all help explain the pricing anomalies. But Rey thinks the gaps will close as Swiss accounting standards and securities laws move closer to those of Britain and the U.S.: "Sooner or later Switzerland and Germany will adopt Europe's rules of disclosure." When that happens, Rey believes most Swiss shares will take off.

What of slow growth in Switzerland and Germany? "Don't underestimate the underlying strength of Swiss and German companies," replies Rey. "When I talk to managements they are all worried. But the more you talk, you see they have other irons in the fire, or they're improving profitability. Same thing goes for America. People here are already writing off America. I'm a bit of a lone wolf, but I say, 'Don't underestimate America.' "

Which is a broad-minded thing for Rey to say, considering one of his forays into U.S. markets. In 1983 Rey took a big position in Beverly Hills Savings & Loan, now a ward of the Federal Savings & Loan Insurance Corp. Rey still owns virtually worthless Beverly Hills stock and debentures. "I feel like a victim." Clearly, he prefers Europe. ■

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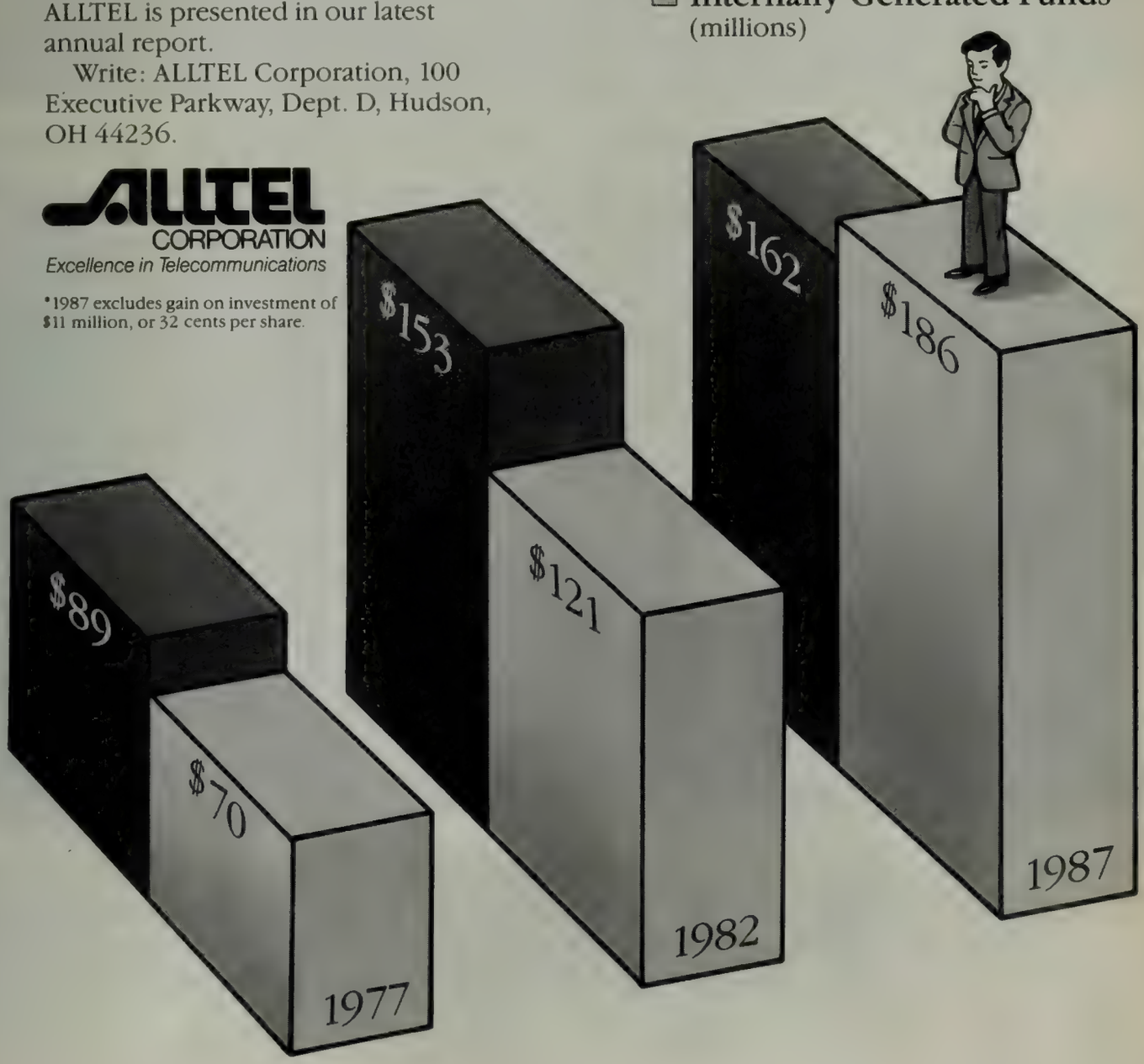

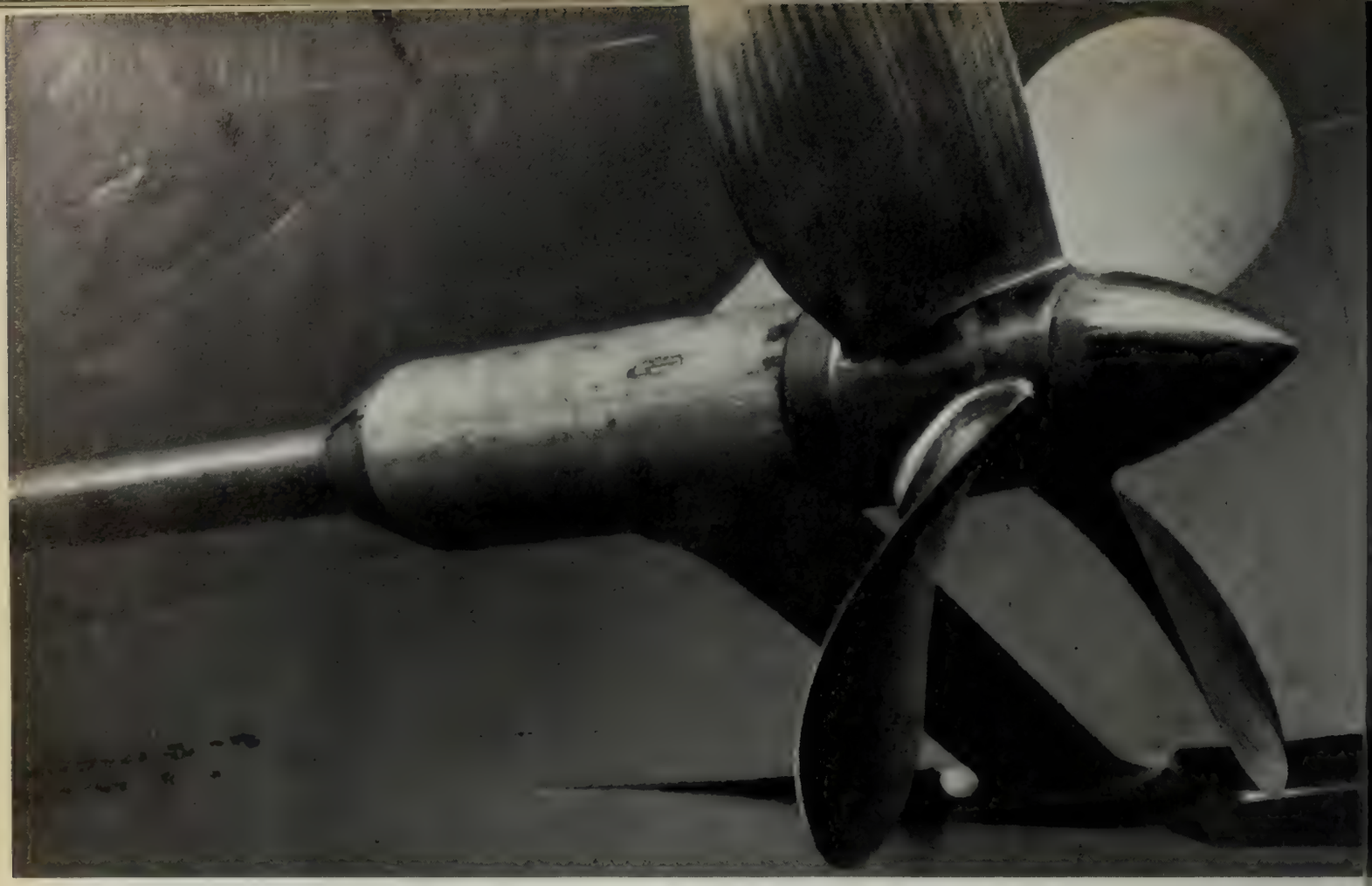

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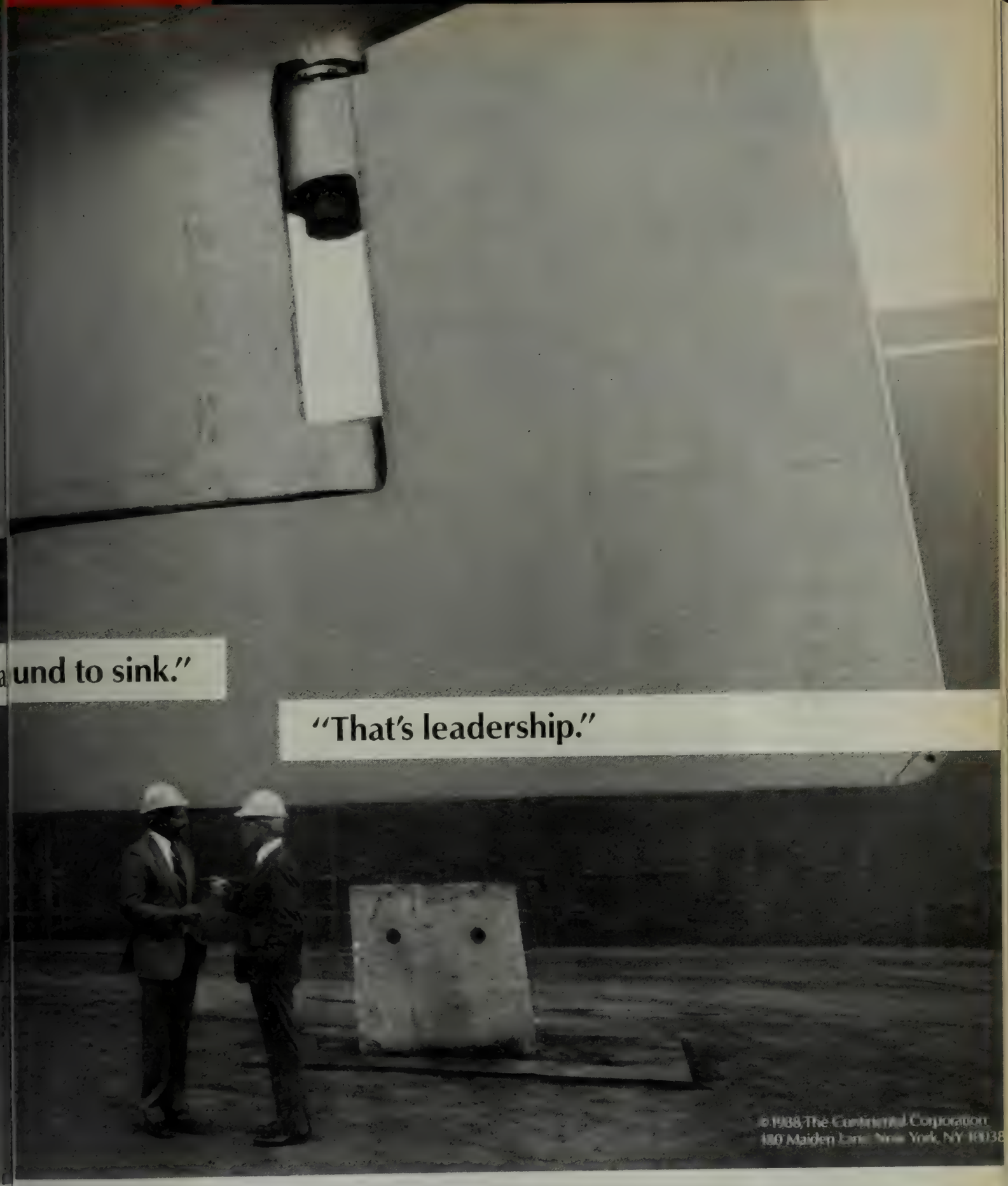

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Marketing

Edited by Jeffrey A. Trachtenberg

Timex, the watch company, took a licking, but it's ticking again. Now it sells not time-keeping, but fun and fitness.

Sweat chic

By Christie Brown

THIS YEAR Timex' $500 million in sales will make it the biggest player in the $1.5 billion U.S. watch market. This is a lot of revenue, considering that Timex sells no watches costing more than $75. But it sells in huge volume. Timex boasts the hottest-selling timepiece in the country, something called the Ironman: a $40 watch, designed with a special stopwatch for folks who train for long-distance running, swimming and bicycling. Timex will sell about 500,000 of them this year, which will help boost 1988 earnings to an estimated $35 million, up 10% over 1987.

This is quite a turnaround from the situation in the late 1970s. Timex had long pushed its product with John Cameron Swayze and his torture-test commercials, famous for concluding that Timex [illegible] take a lickin' [illegible] on tickin'." Timex [illegible] pushing durability [illegible] cheap watches [illegible] affluent consumers had become more interested in style and flash. "Nobody was talking about Timex," says John Houlihan, a senior designer for the company. "People apologized for wearing one of our watches. They'd say their real watch was in the shop. We had a grandmother image."

Jules Allen

Timex' Michael Jacobi with armful of sports watches
The product had a grandmother image.

Meanwhile, zippy competitors like Swatch, with prices just as low as Timex', were grabbing young, trendy customers with new-model-a-minute marketing, hot new colors and striking geometric patterns.

Timex made a bold, smart move. The company realized that lots of the younger customers it coveted were health nuts, or wanted to be. They jogged and swam and went to the gym and did aerobics. Or at least they talked a lot about doing those things. Says Michael Jacobi, Timex marketing vice president: "We asked athletes exactly what they wanted on a watch. Then we gave it to them."

Starting in 1984, an Olympic year, Timex brought out the Triathlon watch, father of the Ironman. Triathletes typically swim 2.4 miles, bicycle 64 miles and run 16 miles, all in one event. "We wanted sports which were fast-growing and which depended on split-second timing," says Jacobi. "The Triathlon watch could be used by three different groups, which meant the potential customer base was enormous." The watch was water resistant to 50 meters, could recall up to eight laps of running times and boasted a 16-hour stopwatch. In its first year the company sold 400,000 units at $34.95. A star was born.

Initially the watch was sold at a discount to athletes competing in sporting events. But at most there are some 300,000 triathletes in the U.S., and most likely they didn't all buy this watch at once. Timex had caught the wave of sports chic. Those who couldn't run 2 miles, let alone 26, could look as if they could—from the wrist down, anyway. Soon Timex was offering a model for racing fans, capable of tracking cars at speeds up to 999 miles per hour. Skiers got theirs with a watch that can measure temperatures as low as 5 degrees below zero Fahrenheit.

Gimmicks? Sure, but fun gimmicks designed to appeal to amateur athletes with dreams of professional performances. Sweat chic. This year the company is promoting an aerobics watch with a timer for taking the

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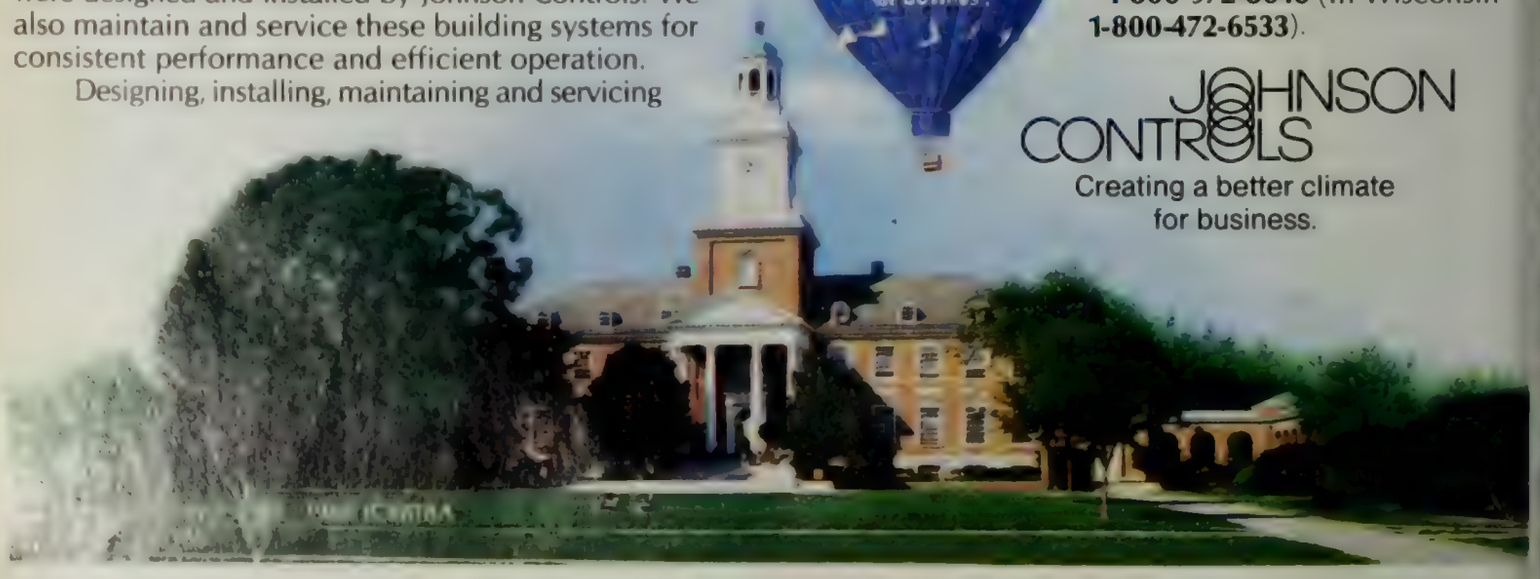
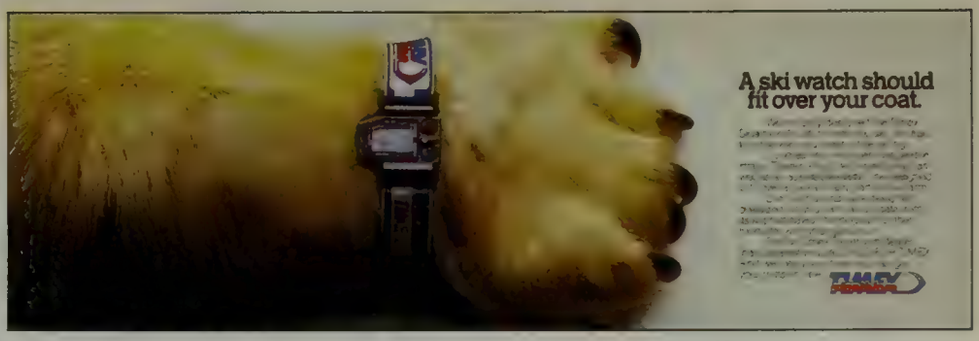


Two ads for Timex sports watches
"We asked athletes what they wanted. Then we gave it to them."



pulse rate, as well as a Victory watch aimed at sailors. The Victory watch has an extra-loud countdown alarm because winds and flapping sails make normal alarms hard to hear. Next up: a fisherman's watch with a thermometer to gauge water temperature and a biker's model with an odometer fitting that attaches by cable to the bicycle.

Timex is spending roughly $5 million this year, half of its advertising budget, to promote the sports line. Where it once bought ad pages in magazines like *Time, Life* and *People,* it now advertises, as well, in some 50 sports and fashion magazines, including *Sail, Shape* and *Runner's World.*

Its advertising copy is lightening up, too. A Timex ad for *Ski* magazine reads: "A ski watch should fit over your coat." The photo shows the watch on a polar bear's wrist.

"People remember humor better," says marketing director Jacobi. "After all, we aren't making nuclear weapons." Nor is he selling just a timekeeper. He's selling fun and fitness—and that's what the consumers seem to want. ■

Buy! Buy! Buy! The mass merchandisers have now discovered yet another way to get the attention of their customers.

No place to hide

By Ruth Simon

USED TO BE, as you wandered the aisles of your favorite store, you'd be lulled into a buying frame of mind by gentle mood music; old favorites, middle-of-the-road classics, tunes with lots of violins. Forget that. Get ready for commercials.

The latest retailing wrinkle is emanating from the in-store loudspeakers of some of America's mass merchants. It is mood music punctuated with straight commercials plus product pitches thinly disguised as public service announcements.

If you listen closely the new in-store programs sound very much like a regular FM radio station. Most even have customized call letters, depending on the client store. So you will hear Rite Aid Radio throughout that drugstore chain, WA&P in many of those supermarkets, and even WTRU (Toys "R" Us Radio) at that successful toy chain. All this is the creation of New York-based Point-of-Purchase Radio, which now provides customized radio programs to 13,500 drugstores, supermarkets and mass merchandise outlets. POP Radio sells advertising time on these programs to consumer products companies.

Laura Cornell

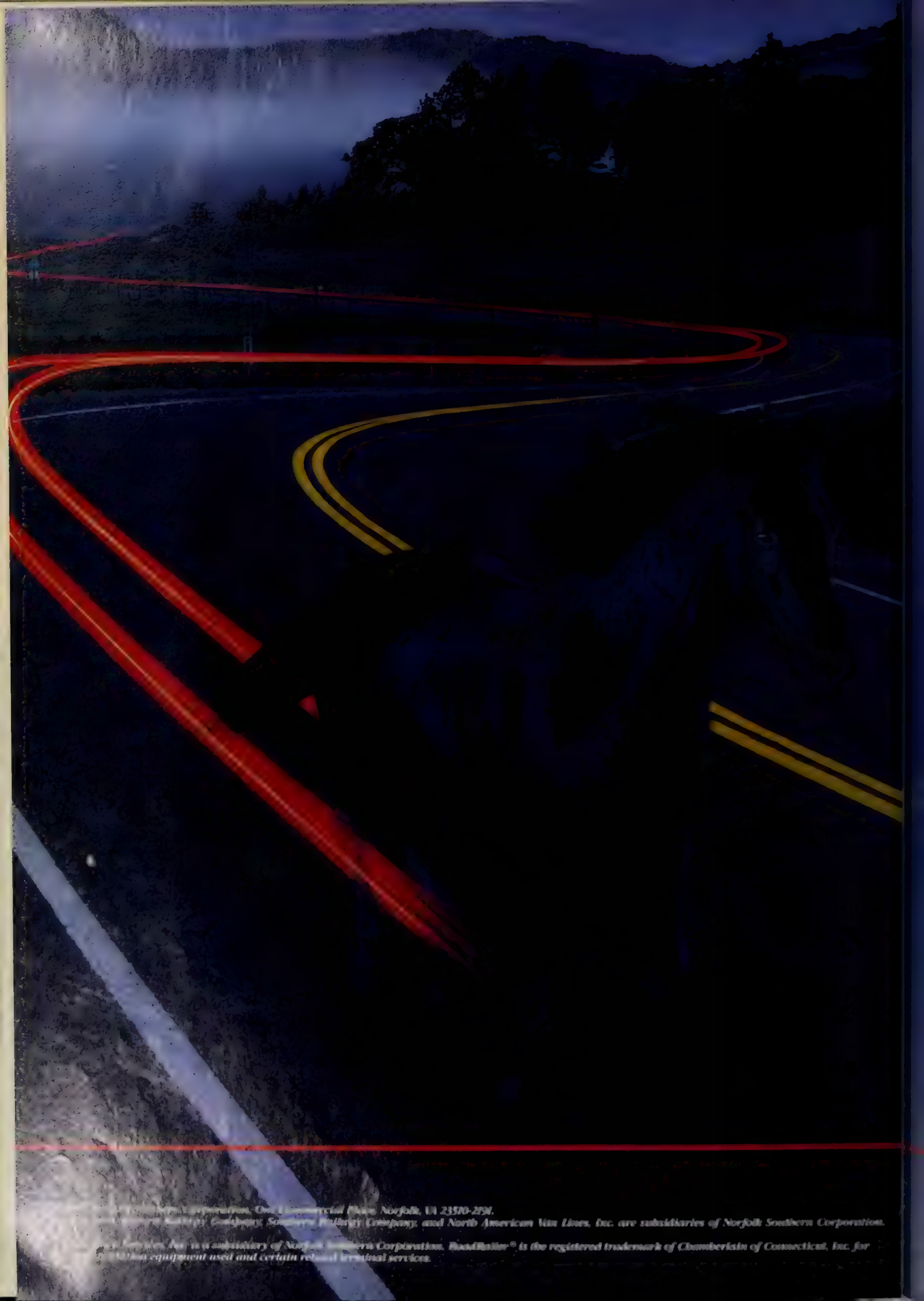
It is radio programming using the familiar and often effective point-of-purchase marketing philosophy. A similar notion made K mart's famous "blue light special" in-store promotions a smash. Catch the customers while they are buying, while they are most receptive to impulse purchases.

Each hour of Point-of-Purchase programming has 12 minutes of tailored commercials and radio programming interspersed with music generally produced by Muzak, its partner and main music supplier since 1987. The lineup of clients is impressive. Johnson & Johnson, General Foods, Procter & Gamble and Glenbrook Labs, which markets Bayer aspirin, are trying the POP approach.

"Many decisions are made at the shelf, especially in health and beauty categories," explains William Straus, a product manager for Glenbrook. Adds General Foods media manager Evelyn Fitzsimmons: "If you catch consumers at the point of purchase, maybe they'll switch brands."

POP, recently trading over-the-counter at a bid of 8⅜, posted a $600,000 operating loss on sales of $6 million for the year ended June 30. But the four-year-old company hopes improved ad sales will result in profits later this year.

Is there no place to hide? ■



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To talk to the professionals who deliver this service, just make tracks to the nearest Norfolk Southern sales office.

NS NORFOLK SOUTHERN

Science & Technology

Edited by Gary Slutsker

Some folks always seems to be in a hurry, even in their leisure time. They're buying yachts with neck-snapping acceleration and 60mph-plus speeds.

Waterborne whiplash?

By Edward Giltenan

REMEMBER WHEN YACHTS and pleasure boats were for leisurely cruising? John Staluppi has neither the patience nor the temperament for leisurely cruising. Staluppi, a 41-year-old multimillionaire car dealer in West Islip, N.Y., wants speed on the water. He recently paid over $8 million for a 132-foot waterborne missile he calls *Octopussy*. *Octopussy* peaks at 52.7 knots (61mph), powered by a trio of 3,432hp diesel engines made by MTU of North America driving three Swedish KaMeWa waterjets. Staluppi's yacht can make Bermuda in 15 hours from New York.

Staluppi and other speed freaks are transforming the yachting scene. "Everything that can possibly be done inside yachts has been done—from Jacuzzis to swimming pools to waterfalls," says boat designer Tom Fexas. "But the thing that will always be unique is more speed, boats that go faster. That's where we're headed."

Three years ago, 25-knot-plus yachts made up just 10% to 15% of the world market for 100-foot-plus yachts; today these yachts make up over 40% of that market. To achieve those speeds, boatbuilders are switching from conventional propulsion systems to high horsepower diesel or gas turbine engines with either waterjets or surface-piercing propellers.

Conventional propellers are still the norm on most boats. But their main drawback is drag. Since the props sit under the hull, they tend to get bogged down by turbulence from the hull itself. Because drag increases water resistance, the props can't take full advantage of the sleek, planing hulls of today's high-speed yachts.

Frank Mulder

John Staluppi's Octopussy

Kent Reason

Proud Bird's Tom Gentry at the helm
"You could get blown off the deck."

So-called waterjets are a handy alternative. They are built right into the hull, flush at the bottom, completely eliminating drag. The result is greater speed and far faster starts. With waterjets, boats of 75 feet or more in length can rocket from a standing start to 35 mph in a mere ten seconds.

A waterjet, simply explained, is a kind of propeller inside a tube. On larger vessels, these tubes can be as long as 7 feet, with 4-foot diameters. Inside are impeller pumps powered by diesel or turbine engines. As the impellers turn, they draw in water from inlet ducts at the forward end of the tubes and propel it out the aft end jet-engine-like, creating forward motion largely free of noise and vibration.

Since waterjets eliminate drag, they are extremely fuel efficient. But cheap they are not. Two jets will easily cost $550,000 to $650,000, some eight times the cost of a conventional twin-propeller setup. Says Mike Kelsey, head of boatbuilder Palmer Johnson Inc. of Sturgeon Bay, Wis., "If you're going to consistently cruise above, say, 25 knots, then consider waterjets. Below that, propellers work just fine."

For pure speed, jets are getting stiff competition from surface-piercing propellers, which weigh less than half as much as waterjets. Surface props are installed out the back of the transom, half in and half out of the water.

How can such a rig create more thrust than a fully submerged prop? Simple: Surface props have half the drag of submerged props. Moreover, propellers hit their maximum thrust in the bottom half of their rotation. Since the top half of a surface-piercing prop hits only air, the bottom of the swing is free to slam its way through the ocean much more efficiently.

Arneson Marine, Inc. of Corte Madera, Calif. has been making surface-piercers for large yachts for the last two years. Now it's at work on a setup for a 140-foot vessel, *Monkey Business II*, to replace the vessel that gained notoriety in the Gary Hart/Donna Rice tryst last year. Built for Donald Soffer, owner of South Florida's Turnberry Isle condo development project, the yacht is due for sea trials next July and is aiming for 30-plus knots.

Any drive system is useless without good engines. Among high-speed marine diesels, MTU has taken the lead because it was first to recognize there was a pleasure boat market for speed. Its most popular yacht engine is a 3,432hp, 16-cylinder brute that substantially exceeds the power output of competing 2,800hp versions from Caterpillar and a 2,400hp model from Detroit Diesel.

Since the key to an engine's efficiency is the amount of horsepower it produces in relation to what it weighs, diesels are now giving way to gas turbine engines. A Lycoming TF40 gas turbine weighs 1,300 pounds and churns out 4,500hp, as compared with the 3,432hp MTU diesel, which puts out 1,068 less horsepower but weighs 10,140 pounds more.

The real speed nuts are combining

ıe best of everything. One example is onolulu developer Tom Gentry's *oud Bird.* The $6 million, 110-foot ›eedboat recently raced from Miami › New York in 19.3 hours.

Both port and starboard sides of the *oud Bird* are equipped with 3,432hp ITU diesel engines driving KaMeWa waterjets. With these alone, the aluminum-hulled racer does almost 60mph. But that's just cruising speed.

In the center of the boat, Gentry has installed a 4,500hp Lycoming gas turbine driving an Arneson Model 16 surface-piercing propellor. Once that kicks in, the three engines pump out a total of 11,370hp, driving the boat at a maximum speed of 80mph.

"This is not exactly your formal-dinner-with-crystal type of trip," says Gentry, 57. "Step outside and you could get blown right off the deck." Apparently that is what a lot of yacht owners want. ■

ıs the computer market gets saturated, oftware and systems become more profitıble than hardware. Raymond Noorda figıred this out early and became a centimilionaire as a result.

Computers talking to computers

By Ignatius Chithelen

NOVELL INC. of Provo, Utah, a little-known $183 million (1987 ales) computer firm, is thriving on a reakthrough that has eluded compaıies 50 times its size: how to hook up ersonal computers in networks so as ɔ reduce or even replace back ffice mainframes and minis.

Novell's software for local area etworks is the glue holding toether more than 2 million comuters and terminals around the vorld. They are being used by ›ritish Rail train schedulers and Hilton Hotel reservation agents nd desk clerks. This month the NBC TV network will use a Novell network in Seoul, South Koea so staffers using PCs can exhange information on Olympic thletes without having to route lata through one of the broadcaser's million-dollar mainframes.

The brains behind Novell's rise s Raymond Noorda, 63, an elecrical engineer and small compaıy turnaround artist. Since 1970 Noorda has successfully saved uch floundering Silicon Valley tartups as System Industries, nc. and Boschert Inc. In 1983 he vas brought in by investors to escue Novell, then only three ›ears old and already on its eighth ›resident.

Noorda has gotten Novell way ahead of the pack in this rapidly expanding market and, so far, has kept it there. Novell was founded as a manufacturer of diverse PC components, but Noorda saw a brighter future in developing the software and systems to hook up PCs into networks. Silicon Valley firms like 3Com and Corvus Systems were also at work on the problem, but there was a defect in their approach that sometimes led to destroyed data when two users tried to store files at the same time.

Tim Kelly/Black Star

Raymond Noorda of Novell Inc.
"The value added in software is higher."

Noorda had Novell pursue a kind of electronic traffic cop approach, using one of the PCs on the system as a so-called file server, devoted exclusively to managing the network and controlling access of individual users to the system's common resources like printers and disk drives. "File servers were already being used to network minis and mainframes," recalls Noorda. "We decided to take the same path for networking PCs."

With Novell's file server software, it didn't matter what kind of hardware a network used. The approach worked for Xerox' equipment, for AT&T's, for IBM's. But developing the concept was a risky bet. In 1983 Noorda ponied up $125,000 of his own money along with $1.3 million borrowed from investors in return for a one-third stake in what was then a private company. The bet paid off almost immediately.

By 1985 IBM and Microsoft had introduced their own file server schemes, but Novell had pulled ahead with a customer base that was growing by the week. Now Novell owns around 50% of the PC networking market, with its systems connecting everything from IBM PCs and minis to mainframes, and will shortly connect to Apple Macintoshes and Digital Equipment VAX superminicomputers. Revenues have swelled over tenfold since 1984, to $183 million last year, while earnings have gone from $375,000 to $20 million.

After going public in January 1985, Novell shares have climbed from about 4 to a recent price of 26, giving Noorda's stake, diluted to a 17% share by the public offering, a current market value of $122 million. The company, which was almost worthless a few years ago, has a market capitalization of $700 million.

Though the margins of computer manufacturing companies are being squeezed by falling

prices and near-saturated markets, software and systems suppliers like Novell are actually benefiting by having more customers to sell their services to. Half of Novell's business is already software-related, and Noorda would like to see the percentage rise even higher. "The value added in software sales is higher," says he. "Besides, in hardware we could be wiped out by cheap products from big vendors or the Far East."

Not that Novell is insulated from competition. In April 1987 Novell brought out an update of its network system to support IBM's PS/2 family of computers. IBM will probabl match this with its own system, per haps utilizing software developed b Microsoft and 3Com. Noorda shrugs "We grew faster after IBM and Micro soft introduced their separate prod ucts in the early days," he says. "Thi is déjà vu." ■

Random Access

Commentary by Esther Dyson

IMPLEMENTATION SUPPORT

One of the markets most enticing to vendors of computer software is decision support—tools to help executives make decisions. But the market has been disappointing. Most executives feel quite capable of making decisions without special software—"just the facts, please."

Far more promising is the market for implementation support: Once the executive has made the decision, how does he get his people to sign up for it and carry it out? While you may not need software to make a decision, you can use it to help explain and analyze one.

Implementation support is a means for getting people to share the vision involved in a given decision. This doesn't happen by letting people vote on the decision or showing them charts, but by getting them to help build the charts, in a process Palo Alto, Calif. consultant Bernard DeKoven calls computer-enhanced meetings. Indeed, implementation of a decision properly begins before the final decision is made, making the process inherently a group effort. Thus implementation support tools are used to manage a group arriving at a consensus—even one already determined by the group leader. (If he can't get the group to rally round, maybe he should reexamine the decision!)

The clearest example of the idea I've seen is the Visual-Interaction Program at Coopers & Lybrand's Strategic Management Services in New York (not a DeKoven client). Consultants, after all, are in an awkward position: They generally can't make or implement decisions; they have to persuade their clients to do so. (The best internal managers behave as if they were similarly con-

strained, even though they are not.)

At Coopers & Lybrand implementation support is a carefully planned process, involving a meeting leader and a computer-wielding facilitator who have worked together preparing materials for the meeting. These vary widely from meeting to meeting, depending on the subjects discussed, but they generally include models of the business under discussion—internal resources and costs, external conditions, information flows, organization charts and matrixes, etc.

What's unusual? Haven't businesses long used chart-assisted meetings to explain decisions and facilitate their implementation? SMS Director David Braunschvig points out the material for his meetings is not presented in a bound paper report (that comes later); it is half-finished and in a transient medium—software.

Thus the meeting participants join in the task of finishing the information. (They are by definition not a passive audience; C&L limits these sessions to 8 to 12 people.) For example, the consultant may present a matrix that represents the client's current view of the marketplace. Then he runs through the questions that his consulting group wrestled with: Would it make more sense to segment the market by family size than by income? Do the same people buy both ice cream and oatmeal? What would happen if the customer service department started providing feedback to the product development group? Could the airline's passenger aircraft be used to carry freight overnight?

As the group considers these questions, the facilitator manipulates the computer—a Macintosh, in Coopers & Lybrand's case—to reflect the discussion. Suddenly the shapes on the chart change; the boxes on the organization chart shuffle. The arrows showing product or information flow shift direction; the numbers in the spreadsheet are recalculated to reflect new assumptions. If two clear sides emerge, the facilitator may divide the screen into two, with points and counterpoints. Presenting the arguments in plain text lessens inhibition. It also, Braunschvig adds, makes it harder for anyone to overwhelm the audience with personality or oratory.

Always remember, however: The technology is only a tool. The meeting leader and the facilitator must be expert in their subject; their ideas must make sense. But when it works, the system works spectacularly well, says Braunschvig. Meeting participants end up understanding the discussion and contributing to the outcome, as participants rather than powerless followers.

In traditional meetings, minutes may be distributed a couple of days after the fact. At Coopers & Lybrand the documents are printed out hour by hour, for participants to scribble on and take with them as they leave. The information they contain is clearly presented—courtesy of Macintosh-based presentation tools such as Symantec's MORE and Microsoft's PowerPoint.

There's no magic at work. The technology simply serves to involve the human participants more fully in the process of implementing corporate decisions. ■

Esther Dyson is editor and publisher of the newsletter Release 1.0.

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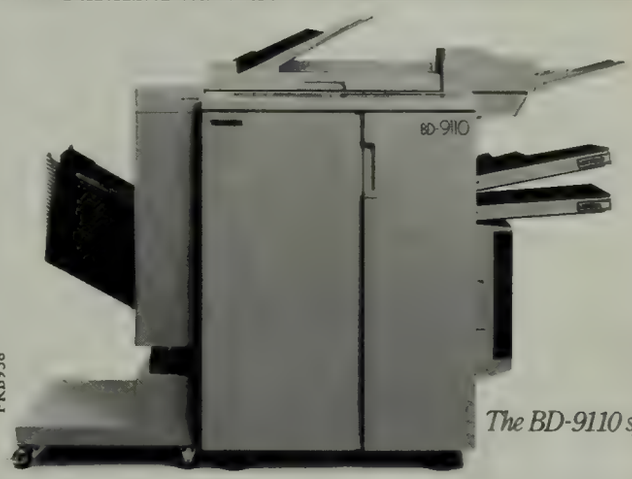

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The BD-9110 system.

In Touch with Tomorrow

TOSHIBA

Personal Affairs

Edited by William G. Flanagan

As carriers scramble to limit their liabilities, they increasingly put restrictions on frequent flier coupons. What to do?

Fly now or cry later

Patrick McDonnell

By Michael Fritz

The U.S. airline industry owes passengers more than 25 billion miles in frequent flier travel worth $1.7 billion.

This is not funny money—it can [illegible] day be redeemed in tickets. Audi[illegible] insisting that carriers begin to [illegible] hundreds of millions of dol[illegible] this ballooning liability, s[illegible]. To soften that hit, an[illegible] their frequent flier p[illegible] the aim of getting travelers to work down their free travel credits or otherwise get them off their books—by having the credits expire sooner, for example.

Already this summer, American, United and, more recently, Alaska Airlines have retreated to new two-tier award programs that encourage fliers to cash in their credits by traveling at off-peak times or pay a higher mileage requirement for the same award. Northwest and Delta are now limiting free award seats to less than 6% of their fleet capacity. Look for TWA and perhaps even Continental to announce similar overhauls in their frequent flier programs as early as this fall.

Both the United and American programs include so-called use or lose provisions (introduced by Republic and since incorporated into Northwest's program). You must redeem your mileage credits within a certain time or forfeit them. United's Mileage Plus members, for example, will now automatically receive award certificates each time they accumulate 20,000 miles. But the certificates expire in three years. American and Alaska Airlines members will have three years to cash in the mileage points accumulated during each calendar year.

Note: Keep careful track of the automatic award coupons spit out by Northwest and United computers. Neither will replace lost coupons. According to industry analysts, Northwest already realizes an 11% spoilage rate on its award certificates.

American will allow you to keep your old mileage credits accumulated through June 30, 1989 and redeem them at today's award levels indefinitely. But United is requiring its fliers to cash in all previously accumulated credits—more than 4 billion miles—by Dec. 15, 1994 or forfeit them.

As a consolation for the new restrictions, United and American have made their award certificates freely transferable, so recipients can sign them away to whomever they choose. Of course, fliers can continue to ignore the rules and sell their awards to brokers.

This transferability opens the door for corporations to demand the credits from their employees. Already, large employers like Abbott Laboratories, Boeing, Chrysler, General Motors, Hughes Aircraft and Raytheon have cut travel costs 3% to 5% by requiring employees to turn over company-paid travel awards. General Dynamics and a number of other defense contractors now ask their employees to voluntarily turn over travel awards.

So what should you be doing if you have been accumulating mileage under current programs? Suggests John Holland, publisher of the *Business Flyer* newsletter: "Plan small getaways during the next year and get those awards out of the system so you're

otected when the inevitable program changes arrive." This suggestion olds true especially for American, nited and Alaska Airlines.

Similarly, work down mileage oints in USAir, which has raised a umber of its award levels and reiced service between Los Angeles id San Francisco and other popular estinations. Continental and Eastn's OnePass program will become ss attractive as Eastern reduces the umber of its routes.

This fall might be a good time to begin redeeming awards on Pan Am, since it may be forced to change its redemption program in the spring. And remember, if any carrier should go Chapter 11, frequent flier obligations will be wiped out just as they were with Braniff when it declared bankruptcy.

Finally, there's the Internal Revenue Service to worry about. Sometime after the November elections, the IRS is expected to make flight awards that are earned on business travel reportable as a form of miscellaneous income.

If you find it difficult to keep up to date on your mileage credits, consider joining one of the firms that track client mileage and advise members on how to take advantage of bonus travel programs.

Two services are Frequent Flyer Club, 5050 Edison Ave., Suite 215, Colorado Springs, Colo. 80915 (cost: $60 to $100/year), which caters to international travelers; and Mileage Managers, P.O. Box 71254, Marietta, Ga. 30007 (cost: $90/year). ■

If you read nothing else about prostate cancer

It isn't pleasant to read about prostate cancer, but bear with us. You could learn something that might save you a lot of grief later. Over 28,000 men die of prostate cancer each year, many needlessly. An annual rectal exam after age 40 would have caught most of the cancers early enough for effective treatment.

The prostate is a walnut-size gland at the base of the bladder, surrounding the urethra. Its main function is fluid production, to help transport and nourish semen during ejaculation.

At any age, you can suffer bouts of prostatitis, an inflamed prostate gland, which can cause urine blockage and frequent, painful urination. Prostatitis is not usually serious—antibiotics often quickly clear it up.

As men age, their prostate usually enlarges. If it gets big enough to block urine flow, it must be removed to prevent infection or kidney damage. Is that the end of the world? Or your sex life? By no means. According to Dr. Edwin Darracott Vaughan Jr., president of the American Foundation for Urologic Diseases and professor of urology at New York Hospital-Cornell Medical Center, about 300,000 men have benign prostate glands removed each year. The operation won't likely make you impotent, but it does leave most men infertile, because semen can no longer be produced.

The prostate gland is a lot easier for doctors to probe than most other glands. It can be palpated manually through the rectum. Although a cancerous growth can usually be detected because it feels firmer than a benignly enlarged one, your doctor will probably suggest a biopsy and several other tests for any enlargement, to rule out cancer.

Prostate cancer is fueled by dihydrotestosterone, a byproduct of testosterone (the male sex hormone) that circulates in the prostate cells. If the cancer is localized in the prostate, the gland can usually be removed without affecting potency, thanks to a surgical procedure developed at Johns Hopkins. But if the cancer has spread to other parts of the body, production of testosterone must be shut down. Although removal of the testicles had become the common way to shut off testosterone production, there are now less drastic solutions. Certain drugs can restrict testosterone production—unfortunately, most will dampen your sex drive.

Estrogen, the female sex hormone, suppresses testosterone production and has been given to men as a therapy for prostate cancer since the 1940s. It can have serious side effects, however, especially cardiovascular problems. Several years ago, researchers found that synthetic hormones can interfere with the brain's signal to produce testosterone. Abbott Laboratories and Takeda Chemical Industries already produce such a synthetic, called Lupron, and Hoechst-Roussel is awaiting approval for a similar drug from the Food & Drug Administration. These drugs have to be injected daily—something not all patients can handle. But help is on the way.

Drug Delivery Systems, based in New York City, is currently testing a battery-powered patch that can automatically deliver such drugs. And ICI Pharmaceuticals is awaiting FDA approval for a synthetic, Zoladex, to be given in monthly injections (it's at least a year or two off, though).

Even more promising is Schering-Plough's Eulexin, already approved in many European countries and awaiting FDA approval. Eulexin blocks testosterone receptors. Tests show that the drug causes impotence and infertility in only a small percentage of patients. Some U.S. patients are already seeking such treatment abroad, given the alternatives here.

Another promising treatment for benign enlargement of the prostate is in the works at Merck. It blocks production of dihydrotestosterone without affecting your libido. Alas, it is still in early development.

Even if prostate cancer is discovered late, there is at least one drug that has been very useful in preventing its spread—Emcyt, developed by Pharmacia. It relieves pain and can help relieve urinary obstruction, a frequent problem in prostate cancer.

At least two diagnostic efforts are being researched. One is a transrectal ultrasound probe. But it can't distinguish between a benign enlargement of the prostate and one caused by cancerous growth. A blood test developed by Hybritech, a subsidiary of Eli Lilly, can track the treatment progress of prostate cancer, but it can't yet replace the rectal exam.

There just isn't a good screening test for prostate cancer other than the rectal exam. That the cure rate for localized cancers can exceed 90% is a potent argument for having annual rectal examinations, with their promise of early detection.—**Francesca Lunzer**

How to lock up your deferred compensation

Peter Sis

Do you believe the federal income tax rate will stay at 28%? Many executives don't. Hence, the newborn popularity of something called the Secular Trust.

If you receive or are negotiating for a position that offers deferred compensation, you'd best get up to speed on this new wrinkle dreamed up by executive compensation pros. It freezes the taxes on deferred compensation at current rates and, as icing, makes that compensation bulletproof in the event of a hostile takeover, merger or even bankruptcy.

Here's how it works: You pay taxes on the deferred compensation now, but the remaining cash goes into a trust managed by an independent trustee. The funds are invested much as they are in any pension program—prudently (by law).

The trust then pays taxes on any earnings each year (and you pay tax on any additional deferred compensation paid into the trust).

There's an obvious drawback: You sacrifice the tax-free compounding that occurs in most other forms of deferred compensation, but if future Administrations raise marginal income tax rates substantially, you may still be ahead.

What's in it for your employer? By paying you now, your employer gets a 34% tax deduction this year on the contribution.

Of course, there can still be strings attached to the deferred compensation—such as your staying with the firm a certain number of years before the money is rightfully yours. So employers can still lock on the golden handcuffs. Also, because the Secular Trust is subject to ERISA provisions, the funds must be invested prudently by a trustee. You generally can't manage it yourself.

The Secular Trust is actually an outgrowth of something called the Rabbi Trust. That was conceived largely as a means of preventing a new management from getting its mitts on your deferred compensation—a not uncommon practice these days. More than one victim of a hostile takeover has had to hassle to get even a part of his or her deferred pay.

The Rabbi Trust still defers payment of taxes, usually until the funds are paid out. But there is one snag—in the event of bankruptcy, creditors can still get their hands on the cash. But with a Secular Trust, points out Peter I. Elinsky, a partner with Peat Marwick Main & Co., no one else can get their hands on your nest egg.—**W.G.F.**

Loose ends

Planning a school-shopping trip in New England? Williamstown, Mass. could serve as an ideal base. Williams College—with its extraordinary art museum—and Buxton School are on the doorstep. And within an hour's drive, in Massachusetts, Vermont and New York, are at least eight colleges and universities (Bennington, Amherst, Hamp[illegible], Mount Holyoke, Rens[illegible] Polytechnic Institute, [illegible]ge, Smith and the [illegible] of Massachusetts) [illegible]en prep schools (M[illegible]shire, Deerfield [illegible]llard, Northfield-[illegible]on and Williston-Northampton). The best place to stay in Williamstown (which hosts a summer theater festival) is The Orchards. It's New England cozy, with modern comforts. Stay over Sunday night, and Monday night is on the house. Rates: $125 to $160, double. Call 800-225-1517; in Massachusetts, 800-231-2344.

The Orchards, in Williamstown, Mass.
Home base for school shoppers.

If you travel overseas, pick up a copy of *How to Stay Healthy Abroad,* by Richard Dawood (Penguin, $8.95). It covers everything from avoiding and treating diarrhea (in many cases drugs are ineffective) to the worst places to drive (in Europe, Greece) to vaccination requirements.—**W.G.B.**

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ture," says Lauren Leifer, 41, president of Industrial Audio/Film Services, a 53-employee outfit in Morton Grove, Ill. that duplicates disks and audio tape. "If I were a male, I don't think I'd have had the endurance to stick it out with my father."

Founding fathers are often pleasantly surprised when they discover how much business savvy their daughters actually have. "I always exceeded my father's expectations," says Natalie Yates, 27, who graduated from Yale with a degree in philosophy. She is now president of Contemporary Products, an office partition company in Brentwood, N.Y. "I would come up with solutions that just hadn't occurred to him. I think a lot of sons have felt they failed their fathers. In my experience, daughters tend to exceed their fathers' expectations."

A daughter's desire to succeed her father is probably best satisfied where there are no sons to compete against. Cathy Lichtman, 30, works with her brother, 27, and their father in the family's 25-person commercial photography firm in Manhattan. She wants the company eventually to pass to her and her brother as equal partners, but her brother wants to run the show. "My brother always wanted to go into the business, but I decided to do so only recently," says Lichtman of her situation. "Yet since coming in I've changed the whole nature of the business and doubled its size.

"It used to be that my brother and I would go out for drinks together after work, and talk about the business," says Lichtman, somewhat wistfully. "Now we no longer have any desire to do that." Understandably, Lichtman père has refused to declare himself on the matter.

With all the obvious advantages, why is it that some founders still have a bias against their daughters' joining the family firm? "It's nothing malicious," says family business consultant Danco. "It's cultural. Thirty years ago these men's wives did not work. And they never considered that their daughters would work either."

New Jersey attorney Stern tells the story of an executive in a brassiere fastener company who has two daughters. "One is a lawyer, the other has an M.B.A.," he says. "And I said to the owner, 'If ever there's a business in which daughters would have a [illegible] ours would be it. Why don't [illegible] them in?'

[illegible] says to me, 'You know the [illegible] in a bad neighborhood, and it's a dirty place to work. . . .' In other words, [illegible] no good reason but didn't [illegible] so." ■

Gary Sigman

Lauren Leifer, president of Industrial Audio Film Services
Dad was the only bull in the pasture.

Karen Halvers

Marguerite Chandler, president of Edmar Corp.
"If you don't really want her, I'll hire her."

The human body wasn't designed to sit for eight hours.
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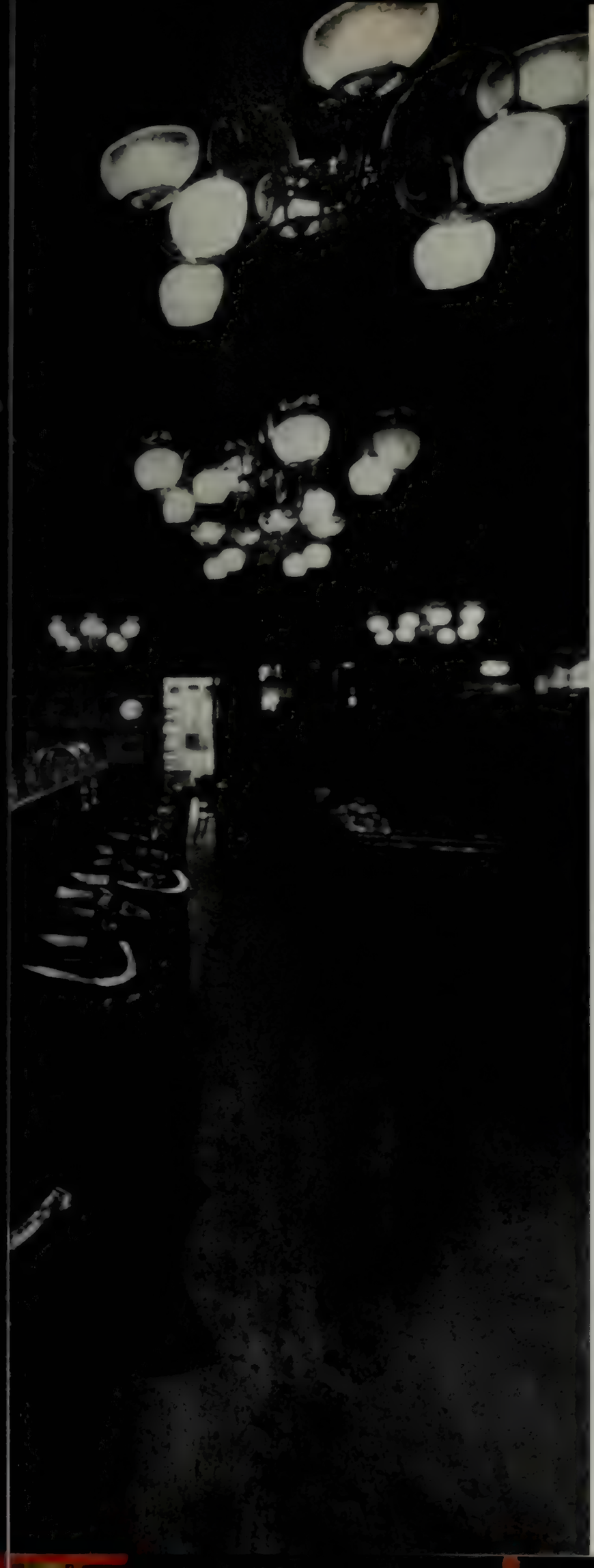
We help train bartenders to disarm killers



A cup of coffee.

That could be all it takes to give a drinker time to sober up before he takes the wheel–and takes a life.

Training bartenders and waitresses to handle customers who've had a few too many is the purpose of a program that America's insurance companies have helped to sponsor.

It's called TIPS–short for Training for Intervention Procedures by Servers of Alcohol–and that's exactly what it is.

In a series of classroom sessions, bartenders, waiters and waitresses learn to recognize drinkers who have had too much. And to prevent them from endangering themselves–or others–until they've had the time to sober up.

Does it work? It works so well some insurers now offer lower premiums to restaurants and bars whose servers take the course. So well that in one town where most establishments participated, drunken driving arrests were *halved* in just one year.

TIPS. It's another of the many ways that your insurance company does more than just sell you a policy.

For more information about TIPS, write for our free booklet or call 1-800-222-1144 and ask for extension F-6.

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Faces
Behind the Figures

Edited by Jerry Flint

Clearing the decks

The U.S. arm of Britain's $10-billion-plus (revenues) Grand Metropolitan Plc. announced in mid-August that it hopes to sell its Inter-Continental Hotel chain for $2.5 billion or so. In June Grand Met sold its Pepsi bottling plants for $705 million, and earlier sold a chain of day care centers. At the moment, its U.S. staff has only Alpo dog food and the Pearle eyeglass chain to run.

Is Grand Met pulling out of America? Not at all. "I didn't give up the breweries just to come here and liquidate our business," says Ian Martin, the Scotsman who has been running Grand Metropolitan's U.S. operations since 1985. "We're clearing the decks rather than clearing out." (Grand Met also owns Heublein, the big liquor company, but that is excluded from Martin's American domain.)

Martin was tapped to head up the stumbling U.S. operations after his success in improving results at the British brewing operations. The U.S. operations lacked focus, he says, hence the asset sales. With the decks clear and money to spend, Martin wants to make acquisitions in food, drink and retailing. He says he wants brand names that are the low-cost producers as well as the number one or two in their markets.

If he finds them, he has no doubt about his ability to wring value from them, despite the fact that he's a Brit in the American consumer market. Noting that he had worked for ITT and Timex in the 1960s and 1970s, joining Grand Met in 1979 to head its brewery operations, Martin says: "I've always felt at home in an American environment."—J.F.

Richard Bowditch

Ian Martin, who runs the U.S. operations of Grand Metropolitan of the U.K.
"I didn't give up the breweries just to come here and liquidate."

Michael Gilo

Car tester Robert Knoll
He didn't do Samurai any good.

Detroit fights back

Good news for U.S. carmakers and their customers from Robert Knoll. As chief of the auto test division of Consumers Union, Knoll is arguably the most influential car critic in America. "In overall performance [meaning handling, ride, braking], the Japanese are not necessarily ahead," says Knoll. The Japanese have lost their edge, too, when it comes to the condition of the cars when delivered to buyers from dealers. He notes that defects in a new U.S. car on delivery "used to run 32, 41 or 23 per car. Now we're getting 5 or 6." He calls the improvement in American cars' fuel economy an "incredible technological jump," and concludes: "Our Detroit cars are getting right up there. Cars today are so good it's getting hard to tell the differences."

Knoll, 57, is no flag waver. He tested cars for Chrysler Corp. until he joined Consumers Union in 1965, where he was among the first to notice how trouble-prone American cars

vere in the early 1970s. More recently his tests pointing to the tendency of Suzuki's Samurai to roll over had an adverse effect on that model. "I don't think we did Yugo any good," he laughs, recalling his castigating review of that car in *Consumer Reports*, the monthly magazine put out by Consumers Union.

Detroit's car men shouldn't celebrate too early. Japanese cars, Knoll says, remain ahead in what he calls "reliability," or how trouble-free the car is when it's two or three years old.

Knoll believes, proudly and probably correctly, that he has made a difference in how cars are designed. "In a way, some of our test reports are a subliminal talk to the manufacturer," he says. "For many of these problems, we don't need a bunch of congressmen to pass a law. It's a matter of internal will."—J.F.

Video Mag(nate)

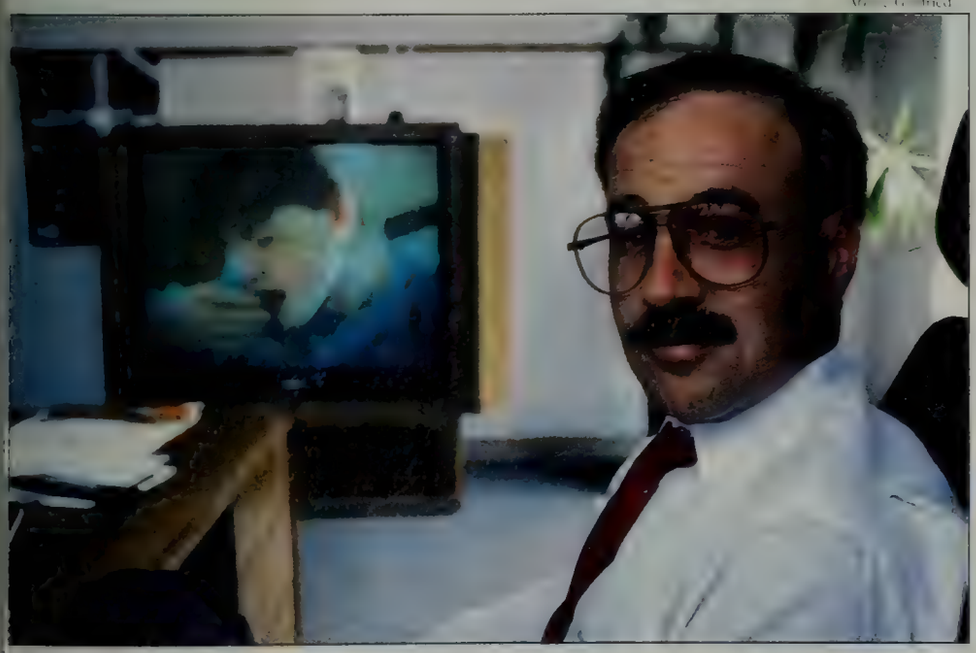
What's wrong with a family publishing business built on murder (*Confidential Detective* magazine), teenage fantasy (*Teen World*), and tales of adventure (*Man's Story*)? "I just didn't see a future in it," says Jay Rosenfield, 40, president of Reese Communications, the publisher of *Video* magazine. "We had 32 magazines when I joined in 1970, but all of them were in declining markets. We needed a growth publication."

Rosenfield found it in 1972 when the *New York Times* published a story on something called a home video recorder. Rosenfield, an English and history major from Ithaca College, was intrigued. Three years later Sony introduced its Beta format VCR; within a few years RCA and Panasonic followed with their VHS variations. Within months Rosenfield had published and distributed 150,000 copies of *Video* magazine.

Today the monthly magazine covers the latest in TVs, VCRs, camcorders and video releases, and claims 410,000 paid subscribers. *Video*'s tenth-anniversary issue, out this month, carries more than $1 million in advertising from such companies as Panasonic, RCA and Vestron Video. Thanks to that issue, Rosenfield says advertising revenues this year will near $7 million, up from $6 million in 1987.

"Last year wasn't a good one for Japanese electronics makers," Rosenfield says. "They didn't sell as many VCRs here as hoped because the market is maturing, but they're adding fancy features, such as stereo sound and enhanced picture quality. They think the higher profit margins on these features will offset the stronger yen." The strong yen also means the Japanese can buy more of Rosenfield's ads for the same number of yen.

What happened to the family's murder and teenage fantasy magazines? They were closed. But Maurice Rosenfield, Jay's father, so missed them that he has since acquired five detective magazines, which specialize in enticing headlines like "Death Trap for the Karate Expert," and "Never Double-Cross a Jealous Sex Monster." Certainly, one can't help thinking of the video crossover possibilities.—**Jeffrey A. Trachtenberg**



Jay Rosenfield, president of Reese Communications
No future in murder, fantasy and adventure.

Choice Courier owner Edward Katz
"No severance, no pensions."

Diane Rubinger Picture Group

Outfaxed

Edward Katz says, "If you don't create change, the parade passes you by." And as far as Katz is concerned, today's parade is being led by a little electronic box called fax.

Katz owns Choice Courier, which he calls the biggest messenger delivery firm in the nation, with $31 million in business this year. He operates around New York City and the East Coast today with 280 permanent employees and 1,300 or so auto-, subway- and bicycle-riding delivery people. The runs are usually paper, but Choice also delivers human body parts (for operations) and copier machine parts right to the repairmen.

But facsimile (fax) machines are making his human messengers technologically obsolete. "We can't compete with the speed," says Katz. So Katz, 56, is shifting to what he calls "facilities management," meaning running mailrooms and copy centers for big companies on a contract basis. Clients include Burson Marsteller, Thomson McKinnon and US Trust. "We're losing 10% to 15% in document delivery, but we're still growing 12% a year because we make up with facilities management."

How does Katz profit? Easy: He runs his systems as entrepreneurial businesses rather than as branches of a corporate bureaucracy. He can, to put it bluntly, run the mailrooms cheaper than the corporate types can. And he can fire people easier. Says Katz, "Suppose business falls off and there has to be a cutback. With us there's no severance, no pensions, no worries about lawsuits."—J.F.

IS THIS NEXT?

Will the health care developments of the future have more to do with saving money than with saving lives?

At the rate medical costs are rising, there's no telling how far a company will have to go to save money.

That's why CIGNA is doing something different. At the CIGNA companies, we firmly believe that the quality of health care must not be reduced along with costs. Last year, we saved our clients over $600 million through our medical cost containment programs. And that's in a year when national health spending *increased* dramatically.

Yet we demonstrated that we're equally committed to providing high quality care. Our case management approach, for example, not only reduces costs, but can actually *improve* the quality of care. We may recommend transferring a patient to a specialty facility that costs more on a daily basis, but because that patient is receiving more appropriate care, the stay is shorter and the net cost is less.

While a "new" concept to most companies, case management has been in practice at the CIGNA companies for over 17 years. In fact, we're the top provider in the U.S. for medical management and rehabilitation services.

And since we're a single source for a full spectrum of medical care and dental options, we can help companies plan very cost-efficient programs. Programs ranging from HMOs to group indemnity coverages to plans that combine the advantages of both.

At CIGNA, we're as concerned about the right care as we are about the bottom line. And we can help you with both. Write the CIGNA Companies, Dept. R15, One Logan Square, Philadelphia, PA 19103.

Striking the right balance between managing costs and maintaining high quality health care. It's one more example of CIGNA's commitment to personalized service to business.

CIGNA

Annual fund survey

Mini tables

Best-yielding stock funds 126
Technology funds..... 128
Commodity funds..... 132
Low-risk funds 135
LBO funds..... 138
Index funds..... 142
Medium-term muni funds..... 152
Double-tax-free funds 154
Closed-end funds..... 158
Honor roll funds..... 168

Main tables

Stock funds..... 172
Balanced funds 206
Foreign funds..... 210
Bond funds..... 218
Municipal bond funds..... 230
Money market funds..... 240
Fund distributors..... 250

Illustrations by Brian Ajhar

With the new tax law, dividend income is as good as capital gains. Here's what to look for in a mutual fund in these days of lower income taxes and lower but persistent inflation.

Searching for yield

By William Baldwin

ARE YOU LOOKING for a fund with a good yield? Join the crowd. This year, for the first time since 1921, ordinary income and capital gains are taxed at the same rate. A whole generation of savers, brought up in an era of 50% and higher marginal tax rates, came to think that dividends and interest are bad and capital appreciation is good. That's no longer so now that they are taxed equally. Scorn not, therefore, dividends.

Tax rates aside, there's something to dividends. Investors have noticed that some of the best total returns over the past decade came from funds

with big yields: Vanguard High Yield Fund, Vanguard Windsor, Fidelity Equity Income. Over time, those fat dividends from Ford Motor and Sears add up. They also cushion a portfolio in a bear market.

The new byword, replacing performance and capital gains, is total return—appreciation plus dividends. But be careful: For the investor who wants to preserve his or her capital, total return is not the same as spendable income.

Once upon a time—sometime during Eisenhower's first term—the two were virtually the same. You could spend what you got in the mail and your capital would remain intact. Inflation was close to zero. You could buy 40-year Telephone bonds and clip the coupons. The 2¾% yield looked pretty good at the time. A 4% yield was excellent, and 6% was heaven.

Long before those 40-year bonds matured, however, inflation destroyed the very premises of income investing. There is no such thing any more as conservative investing for a dependable income. How can there be, in a world where an overnight spike in interest rates can cut enough value off a Treasury security to wipe out several months of interest? Where stocks can go down 20% in a day? But if income is your goal, you may yet succeed in finding it, even amid this turbulence. A well-diversified mutual fund is one way for you to get there.

Before embarking on a search for the fund that delivers an income, stop to consider what is meant, or ought to be meant, by yield. True yield is not the coupon on a bond or the dividend on a stock. It is also not the payout rate on a fund. It is not even the legal yield required to be disclosed under a complicated new SEC formula. Yield is better defined this way: the income that can be spent without, over time, damaging the principal. Think of this as real yield.

Reasonable people will differ about real yield. There is no exact formula for it, which is why, in this survey, we publish a payout rate in the "yield" column. You should treat this number as merely a starting point in your deliberations.

By any sound definition, though, the 9.5% coupon you collect on a long-term Treasury bond isn't a true yield. With inflation at about 5%, more than half the interest you receive must be plowed back into more bonds so that your principal maintains its purchasing power. If you start with $100,000, a year from now you should have $105,000 in bonds. That means you can spend only about $4,500 of the

interest received the first year. The next year you would receive slightly more interest, and you could keep slightly more than $4,500 of it.

If you own Treasurys through a bond fund, subtract from that 4.5% the fund's expense ratio. Say, 0.5% on a well-managed fund. That leaves you a 4% return you can spend. If you are accumulating wealth, not living off it, count on your money compounding at 4% before taxes (or all of 1% after).

The arithmetic of coupons and inflation gets fairly complicated for someone owning bonds directly. But if you own a bond mutual fund you can arrange fairly easily to draw off a real return, while leaving the principal intact against the water damage caused by inflation. First of all, don't be swayed by the dividend rate on the fund, since it may have nothing to do with the real yield. Simply reinvest all dividends. Then make systematic annual withdrawals of about 4% of your account—less if you think inflation is going to get worse. Still less if your fund runs up 1% or more in expenses, which a distressing number do.

Some government bond fund managers aim to transmute the 9.5% they collect from the Treasury into some higher return by speculating on market swings. A wonderful idea, but we haven't met anyone who can do it consistently. For a real return, you'd do well to count on no more than 4.5%, minus whatever the fund's expense ratio is.

Does 4% seem inadequate? Stocks offer a slightly better return. Over most of this century, payouts from stocks have beaten inflation by a bit more than 1% a year. Buy at today's prices, and you can collect a dividend yield of a bit less than 4% over the next year. Add it up, and a diversified stock portfolio ought to produce something like 5% a year of real return, before expenses.

Put it this way: If you buy a well-managed stock fund that pays out [illegible] in income dividends, you can make a case for spending the entire dividend. Over time, the principal (with reinvested capital gains, of course) must grow to maintain itself against inflation. If the fund pays out much more than 4.5%, then you probably ought to reinvest some of the income dividends to stay whole.

The best-run stock funds have done a lot better than 4.5%, after inflation and expenses. But don't count on a repetition of such performance. Stocks can't keep going up forever at the pace they have since 1978. And the next decade's best funds won't be the same as the past decade's.

But, absent any better way to pick a fund, go with those that have proved themselves. The FORBES honor roll is a good place to start looking.

For those who want st[illegible] bility first and foremo[illegible] the table at left lists eig[illegible] candidates. They all ha[illegible] recent payout rates high[illegible] than the market's 3.3% [illegible] market-beating retur[illegible] over the past five years, a[illegible] B or better performance [illegible] down markets. Another r[illegible] quirement is that the func[illegible] composite expense ratio[illegible] defined here as annual e[illegible] penses plus a fifth of t[illegible] sales commission—[illegible] 1.25% or less. Several fun[illegible] were disqualified for bei[illegible] closed to new investors.

Be forewarned that i[illegible] come dividends on some [illegible] these and many other fun[illegible] were distorted upward in the past ye[illegible] by a 1987 tax law, so payouts may f[illegible] in 1988-89.

Finally, remember this: The re[illegible] name of the game is total return, n[illegible] just dividends. To get the best tot[illegible] return you will have to accept som[illegible] volatility. If you can't accept it—[illegible] Oct. 19 scared you witless—stay wi[illegible] the high-dividend funds. But for t[illegible] best long-term results, total return [illegible] what to go for. If you're thinking, [illegible] you should, about total return, th[illegible] the payout rate is only one factor [illegible] your choice of an income fund. ■

Sustainable yield

These funds combine above-average payouts with an ability to beat inflation and survive bear markets.

Performance in down markets	Fund	Recent payout rate	Five-year annual return	Composite expense ratio[1]
B	Fidelity Puritan[2]	7.3%	15.6%	1.20%
A	Safeco Income	6.9	15.2	0.98
A+	Lindner	5.5	14.9	1.07
A	Evergreen Total Return	5.4	15.2	1.01
A	Financial Indus Inc	4.5	14.9	0.78
A	Partners	4.2	14.6	0.86
A+	Mutual Series–Qualified	3.7	19.6	0.71
A+	Mutual Series–Mutual Shs	3.5	19.2	0.69

[1]Annualized load plus expense ratio assuming five-year holding period
[2]Balanced fund

Source: Forbes CDA Mutual Fund Evaluator on diskette

Starting now, investors will no longer b[illegible] able to blame the Securities & Exchang[illegible] Commission for the cynical liberties man[illegible] fund managers took in advertising the[illegible] fees, yields and records.

Better late than never

By Laura R. Walbert

TRUTH IN PACKAGING IS coming to the mutual funds business. It is coming slowly and it is coming late. But at least it's coming.

For years, mutual funds have played hide-and-seek with fee information [illegible] prospectuses. Bond funds enticed i[illegible] vestors with bloated "yield" numbe[illegible] that included much more than int[illegible] est income. And funds advertised st[illegible] lar performance during some con[illegible] nient time period that allowed t[illegible]

nd to claim to be number one. "The mptation," says Value Line's Rulph Watz, "was to pick a period tween Tuesday and Halloween here your fund just happened to do st."

Now all this is changing. Under essure from investors, and from agazines like FORBES, the SEC is hering in what Gerald Perritt, edir of the Chicago-based *Mutual Fund tter*, calls "the new glasnost era of en fee and return disclosure." The w regulations took effect by July 1, though it could take until next ring before all annual fund prospeces comply.

Consider, first, the disclosure of es. The new fee table that funds ust now put at the front of their ospectuses spells out everything u could want to know about les charges and fees, including erhead, portfolio management es, distribution fees, sales loads. he table also gives a hypothetil example of what you would y on a $1,000 investment that ew 5% a year. Presented this ay, fees can prove to make enorous differences among funds.

Using guidelines similar to the C's new rules, Burt Berry, edir of San Francisco-based newstter *NoLoad Fund X*, created his wn table, comparing $10,000 inestments in several funds. Asming the funds grew 5% a year d the investor sold his shares at e end of the period, a five-year ay in Vanguard's Windsor Fund ould cost the investor $241 in fees. ve years in Kemper's Investment ortfolios-Equity fund would cost 1,395. A one-year investment in indsor would cost $44, while the emper fund would take $726 in ads and fees. "When you lay them t side by side," concludes Berry, t's pretty brutal."

But don't look at fees isolated from erformance. Notes Thomas Littauer, senior vice president with Van Kamen Merritt, a division of Xerox: "A nd with very low fees and very low erformance doesn't do anybody any od."

Yield, a big selling point this year, as another source of investor confuon that will be made less murky nder the SEC's new disclosure rules. few years back, fund managers inented the "enhanced yield" bond nd, in which yields were bolstered y including returns of capital and in other ingenious ways.

Explains Van Kampen Merritt's Littauer: "The 'dividend' [used to calculate yield] could have consisted of interest, return of principal from premium bonds and any other income from option writing or things of that sort."

In their heyday, some "enhanced yield" funds quoted yields of 10% to 12%, when long Treasurys were yielding only 8.5%. Such selling tactics will be harder to get away with under the new SEC "standardized yield" concept. Standardized yield is based on a yield to maturity calculation that focuses on net interest income, not on cash paid out in a particular period.

As with fees, the differences in yield calculations can be shocking. Recently, Kemper's Investment Portfolios-Government Plus, an enhanced yield fund, had a yield calculated under the SEC rules of 6.3%. The same fund's distribution rate, or payout yield, was 10.3%—a 400-basis-point disparity! At the same time, Kemper's High Yield Fund was right on the mark with an SEC yield and distribution rate of 11.9%.

Counsels John Bogle, chairman of Vanguard Group and long a champion of standardized yield reporting: "If the difference is 250 basis points, something's wrong. That's not noise, that's substance." The SEC rules will end the disparity by allowing only the "standardized yield" to be advertised, although other numbers can be given out on request. FORBES continues to use a distribution rate in its fund tables, although we caution readers not to take this number as a measure of true return *(see preceding story)*.

Note that the SEC rules apply to advertising and recorded telephone messages. They do not apply to telephone calls. When you call a fund or broker and ask simply for yield, the salesman can still quote any yield he wants. In a few spot phone calls, FORBES asked for yield and was given the (usually higher) distribution rate as often as the (usually lower) SEC yield. And once a request for SEC yield was laughed off.

The SEC has brought some much-needed uniformity into how fund managers advertise their performance, too. No more subjectively choosing and headlining only that period (fleeting though it was) during which a given fund did spectacularly well. Under the new rules, all ads quoting performance numbers must also include the fund's average annual return for the past one, five and ten years. As a result, expect ads quoting performance to dry up. Nicholas Kaiser, president of Unified Management, quips: "This does prevent, to some degree, the fact that there were 453 funds all ranked number one last year."

Will the new rules make a difference? Will investors bother to read the fine print? During the later stages of a snorting bull market, probably not. Explains Perritt of the *Mutual Fund Letter*: "The standard line I get is, 'Who cares what fees are if I get 25% or 30% a year?' "

But in down or sideways or even slightly rising markets, the more intelligent mutual fund shoppers probably will read the SEC's new disclosure rules, and benefit from them. This will be especially true once investors become accustomed to the disclosures. Perritt again: "A lot of investors don't understand that 1%, 2%, 3% a year, depending on how much you are getting gouged year after year, eventually eats away at your returns. Soon you're going to be able to grab prospectuses of a dozen funds and compare them one on one."

Vanguard Group's Bogle agrees, and thinks consumers will gravitate toward funds with reasonable fees. "Funds have gone through five years where the amounts of increased costs have just escalated and escalated," says Bogle. "I think we are seeing the end of that. But I think it's going to be more a matter of moderating the increases than driving the decreases." A dollar saved is a dollar that can be reinvested. ■

Picking technology stocks is a tricky business. Richard Coons of Alliance Technology is good at it. Here he explains how he tells a winner from a loser.

Ferraris in the parking lot

By John Heins

ANY NEWS IS BAD NEWS for technology stocks these days. Silicon Graphics stock was off 28% in the two days after reporting an 87% income rise. Same story at Microsoft. Stratus Computer, which builds interactive systems (such as those used in point-of-sale transactions and securities trading), is down 23% from its 1988 high of 31½, even though earnings are up 66% so far this year.

What gives? Earnings at these companies came in below Wall Street expectations. With earnings actually declining at companies like Seagate Technology, Apollo Computer and Honeywell, investors seem to be worried that hard times are coming for technology firms. Tech stocks are being marked down across the board.

Could it be that Wall Street is overdoing it? That a technology fund would be a good buy now? Richard Coons, a San Francisco-based money manager, thinks so. He does have a point of view, as stock picker for the $180 million (June 30 assets) Alliance Technology Fund. "People lump all tech stocks together," he says. "It's like if Montgomery Ward has a good or bad quarter, everybody buys or sells Toys "R" Us."

Coons is not a "value" invest looking for low P/Es or hidden as values. His approach, then, puts h poles apart from Kenneth Fisher, money manager (and FORBES colu nist) who doesn't like to pay a hi multiple of sales in buying a techn ogy business. "Usually only junk se at cheap prices in technology stock Coons argues. "If a stock is 10 tim this year's earnings, it's 20 times ne year's." He buys strategically plac companies and pays heavy premiu for estimated earnings growth of least 20% a year. IBM, with its dep dence on mainframes, and Digi Equipment, strong in minicompute are too slow-growing for Coons.

Of course, his strategy is risky, amply reflected in his fund's perf mance since the crash: down 12% November, up 21% in Decemb down 6% in January, up 11% February, and so on. Predicti rapidly growing earnings, es cially for technology compani is chancy. Coons thought h disk drive maker Seagate Te nology would make $4 a share the fiscal year ended June 30, 40% from 1987, on the stren of expanding demand and its t to IBM. But IBM brought out new PS/2 line with its o drives, and industrywide pri cutting took a toll on the n IBM orders. Seagate earned o $1.54 a share for the year. Co dumped his shares at around taking roughly a 25% loss shares bought since January.

But Coons has been m adept at picking winners th losers since he took over fund in early 1986, after years as a technology st analyst and salesman. the 3 years ended June Alliance Technology r an average 23% a year. T average technology fu rose only 11% annua during the period; the S 500 rose 16% a year.

Picking tech stocks is just estimating earni and following trends. In ition about managem plays a key role. "The m gold the CEO wears and more Ferraris in the park lot," says Coons, "the le like the company."

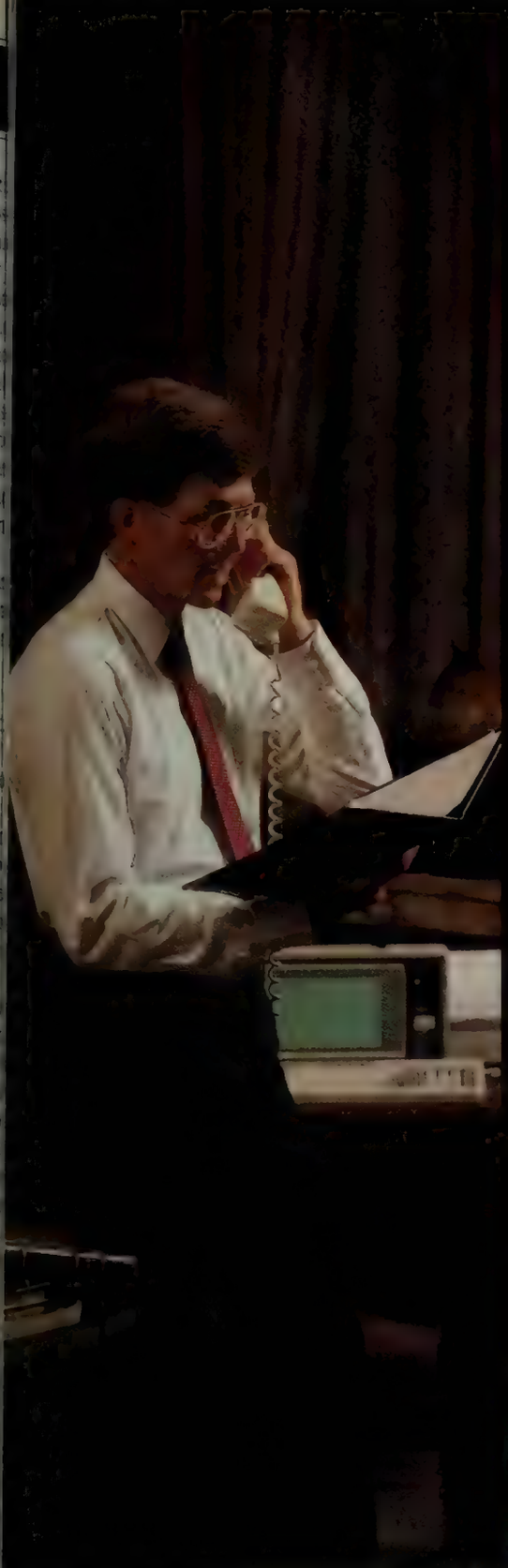
Coons started dump

The tech sector

Technology stocks aren't in favor on Wall Street these days, but some funds specializing in them have done respectably well in the past three years.

Fund	Assets ($mil)	Average P/E	Maximum load	3-year average return
Alliance Technology	$180	31	5.5%	22.6%
Sci/Tech Holdings	239	26	6.5	17.6
Technology Fund	539	21	8.5	15.6
Putnam Info Sciences	109	23	8.5	14.1
Fidelity Select–Technology	113	24	3.0r	1.0

Data as of June 30 r Back-end load reverts to distributor



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the stock of the high-flying Westwood One radio network after seeing that the chief executive was selling stock to buy himself an airplane. "That tells me he's enjoying life outside of work too much," Coons says. "I want managers who are on a mission to change the world." Such people rarely become complacent. Although he owns a small stake in engineering workstation manufacturer Sun Microsystems, management's flamboyant arrogance worries him.

Coons sees the recent market jitters as an opportunity to buy stocks in companies with bright futures. Most are leaders in what he calls the "microprocessor revolution," the trend toward smaller, more powerful desktop computers that can perform functions once reserved only for mainframes. "The reason most people do badly picking technology stocks is because they abandon the ship before it's sinking," says Coons. Still optimistic about the outlook for capital spending, he's been buying computer makers Apple Computer, now around 43; Compaq, at 58; Stratus, at 24; and Silicon Graphics, at 15.

He sees other relative bargains. Intel Corp., which manufactures the microprocessors that power most desktop machines today, trades for only around 10 times Coons' earnings estimate of $3 a share this year. He thinks Intel—"the computer company of the 1990s"—could earn up to $4.50 a share next year.

Among Coons' lesser-known favorites: Integrated Device Technology, a $121 million (sales) maker of so-called static random access memory chips—chips that retain information even when the electricity is off. Autodesk, Coons' largest holding, makes computer-aided design and drafting software for PCs and workstations. The company trades at a remarkable [illegible] times sales, but Coons counters that it has gross margins of 89% and [illegible] at least 50% a year over the [illegible] three years. Tiny Sequent Computer [illegible] million (1987 sales) maker of high-end Unix-based computer systems, has excellent potential, according to Coons, and is not widely followed [illegible] by the Wall Street herd.

Choosing a technology fund can be as difficult as picking the individual stocks. There is a wide diversity in tech fund performance and strategy *(see table, p. 128)*. While Coons picks only fast-growing firms, the Putnam Information Sciences fund invests in large blue-chips like Hewlett-Packard, Unisys and Digital Equipment. Alliance Technology is predominantly in U.S. computer-related stocks, while Sci/Tech Holdings also invests heavily in pharmaceutical companies in the U.S. and Japan. All funds, to varying degrees, stretch the definition of "technology"—Kemper Financial's Technology Fund, for instance, h[illegible] large stakes in Gulf & Western, Fo[illegible] Motor and Exxon—so fund buyers i[illegible]terested in a pure play should keep a eye on the portfolio.

As important as the selection of technology fund is the decisic whether to be in technology at al Coons is a real pitchman for the se tor, but he makes a good case. ■

They'll tell you commodity funds are a great inflation hedge. But as often as no they are a good way to lose money.

Pork bellies, beans and stock futures

By Ronit Addis

After years of disinflation and choppy markets, commodities are hot again. Base metals went wild at one point last year. The weather made fortunes for a few soybean traders this year. And so commodity funds are getting attention once again from the general public—people who usually stick to stocks and bonds but wouldn't mind a side bet as a hedge against inflation.

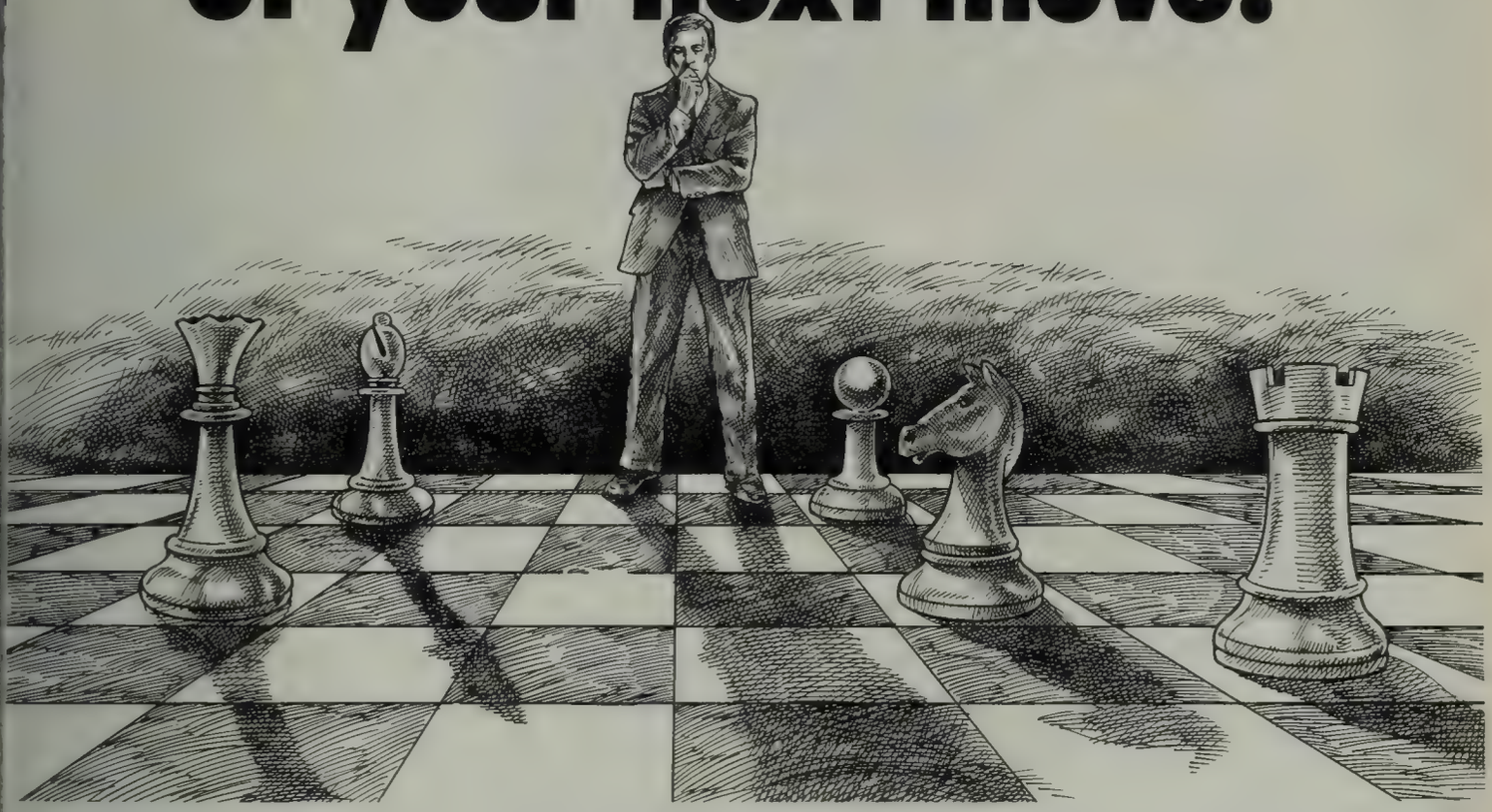
Are commodity funds a good inflation hedge? Not really. Four of the 18 publicly registered funds open for new investment three years ago are now out of business *(see table, p. 132)*. A fifth has lost money—how much, the operator won't say, nor need it, since the Commodity Futures Trading Commission sometimes allows performance numbers to remain confidential. (The CFTC is to commodity pools what the SEC is to stock and bond funds, but its oversight is more casual.) Of the remaining 13 that have disclosed results, 2 have lost money and 1 is even. Average performance for the 17 funds for which performance can be measured is 38% over three years. That amounts to a compound annual 11.4% gain—well be hind the S&P 500's 16.5% return.

A more favorable view of commod ity fund performance comes from Managed Account Reports, of Colum bia, Md., the leading authority on commodity fund performance and the source of much of the data Forbes used in calculating the three-year per formance number. Morton Baratz editor of Managed Account, arrives at a 69% average total three-year return for 130 commodity pools his firm follows. That comes to a 19.1% compound annual return.

One potential weakness in the 130-fund average is that it suffers from what statisticians call survivorship bias. Some losing funds simply disappear from the database. Baratz does not, for example, include in the average the results of funds that merged into others over the past three years.

What about funds that folded? They're not in the Baratz average. The Sceptre fund was liquidated in November 1985, after years of dwindling assets. Cofounder Steven Winn says sales of shares began to suffer only six months after the fund opened in 1981, when the other founder, James Curtis, was bludgeoned to death in his Den-

How to keep your money in play until you're sure of your next move.



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ver apartment by an unidentified assassin. Says Winn: "Jim did most of the promotion for the fund, so that was a major gap."

To get a fairer assessment of average returns, FORBES began with monthly data supplied by Managed Account Reports but tracked down the missing funds. For example, Sceptre goes in the average, with its 1985 liquidating value as its final value. We confined our study to the 18 CFTC-regulated funds still accepting money from U.S. investors on June 30, 1985.

To get a compound total return, we assumed each fund's cash distributions were reinvested in more shares. Investments in funds that merged into others were carried over. Sales loads were subtracted.

Result: A $17,000 investment spread equally among the 17 funds for which performance could be measured would have gained 38%, to $23,506, by June 30, 1988. The percentage gain would have been lower had we succeeded in persuading either the fund manager or the CFTC to release financials for one shy fund, the

Major Trend Futures Fund. Fund manager Joseph Mills, a 47-year-old Newport Beach, Calif. broker who was twice fined by the National Association of Securities Dealers for failing to meet net capital requirements, and other violations, says only, "Since 1985 we're down, and I'd really rather not give you those figures."

The 38% gain comes in spite of large fees. Most funds, for example, carry a front-end load ranging from 3% to 9%. The general partner who organized the fund then gets a management fee of as much as 6% annually. That is about six times as big as the typical management fee on a stock fund. Usually some of the management fee goes to the commodity trading adviser, the fellow who decides whether to buy beans or short stock index futures.

The fees don't stop there. Typically the adviser also gets an incentive fee of 20% of profits. A nice deal for the adviser, since he can get rich even if the shareholders lose. If he doubles the portfolio one quarter and halves it the next, he'll pocket a fee of 20% of the original value and won't refund the incentive fee during the losing quarter. This is as close to a no-lose situation as many on Wall Street will ever see.

Then there is overhead. One commodity pool attorney says a new fund may incur legal, printing and filing fees of as much as $800,000.

Advisers, in sum, have to swim hard against the downward drag of fees to deliver a profit. Some do it, but there is enormous variation in results, even among funds from one sponsor. Look at the three Cornerstone funds open to new investment in 1985. Cornerstone I would have turned $1,000 into $1,139 over the three years to June 30; Cornerstone II, $1,987; Cornerstone III, $2,398.

Look at the losers. The still active Sunshine Futures fund would have turned a $1,000 investment into $535 over the last three years. Don Charles, who runs this fund, blames the stock market crash. "We were positioned for the long term in stock index futures." (Funds, and the CFTC, consider stock futures a "commodity.")

What about the disappointing $1,115 that represents the ending investment in North American Commodity III? Please note that the trader fired by Cornerstone I, Campbell & Co., is still trading for this fund. Keith Campbell, president of Campbell & Co., doesn't think his trading is to blame. "You really have to look at the load structure," he says. His meaning: Expenses are too high for the fund to make real money.

All in all, the commodity game sounds a lot like the racetrack: some big winners, some big losers, and enough vigorish off the top to make long-term profits very elusive. ■

Commodity funds

Investors playing the pork belly and soybean markets are hoping to make a bundle and get an inflation hedge. But sometimes they don't get much of a hedge, and in recent years they'd have been better off in stocks.

Fund	Parent of general partner	Assets ($mil)	Load	$1,000 became[1]
Agri-Commodities Ltd Partners I	ConAgra	$2.6	4.00%	$1,976
Collins Futures II	Collins Financial Svcs	0.8	none	687
Commodity Growth[2]	Dunn & Hargitt	0.6	none	1,423
Commodity Trend Timing II	Shearson Lehman Hutton	36.9	5.00	2,227
Cornerstone I[2]	Dean Witter Financial Svcs	10.0	7.63	1,139
Cornerstone II[2]	Dean Witter Financial Svcs	37.0	7.63	1,987
Cornerstone III[2]	Dean Witter Financial Svcs	82.0	7.63	2,398
Financial Futures[3]	Dunn & Hargitt	—[4]	none	1,250
Harvest Futures III	ConAgra	0.4	5.00	1,146
Matterhorn Commodity Partners II	Shearson Lehman Hutton	12.4	4.00	1,910
North American Commodity III	North American Hldng Corp	3.0	8.70	1,115
Sceptre Futures[5]	Winn Management	—[4]	none	919
Stock Index Futures[6]	PaineWebber	—[4]	4.00	637
Sunshine Futures	Don Charles & Co	1.0	7.00	535
[illegible] steintrene Ltd[7]	Crédit Lyonnais	13.0	5.00	1,722
[illegible] Future Fund	ConAgra	50.0	2.50	1,423
[illegible] Future Ltd[7]	Drexel Burnham Lambert	6.7	none	1,004
[illegible] Funds[8]				1,382

[illegible] in the U.S. [2]Rolled into Commodity Growth. [3]Assets not available; fund no longer [illegible] [4]Stopped trading June 30, 1987. [5]Original name was Winchester International [illegible] [6]Excluding Major Trend Futures, for which performance unavailable.

Sources: Managed Account Reports; Forbes

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It's easy to be swayed by a money manager's top-of-the-charts performance. But before sending off your money, ponder the relationship between risk and reward.

Leverage up, leverage down

By Mark Hulbert

THERE THEY ARE, heading the roster of funds in a business magazine or a newspaper: Top performers, past ten years. The implication: These are the best funds to put your money in. Don't fall for it. (To avoid this dangerously simple-minded kind of judgment, the unique FORBES funds ratings measure performance separately in down markets as well as up markets, and require good performance in both for an honors grade.)

The fallacy in the winners lists you see in most publications is that they ignore the intimate relationship between risk and return. It does you no good to know that a stock picker beat the market if you don't know the amount of risk he took to do it. It's like knowing how many hits a ballplayer got without knowing how many times he was at bat. Smart investors look at a strategy's riskiness in addition to its raw performance. This principle applies to any kind of stock picker—a fund manager, a private investment adviser or an investment newsletter.

What follows is not a widows-and-orphans sermon. The pivotal role of risk in money management goes beyond the fact that you may want to sleep at night. The rules apply even if you are a millionaire looking to bet $100,000 on a hot growth-stock fund.

Imagine two money managers, each with $10,000 to put in the market. They buy identical portfolios. The first one buys $10,000 of stock. The other buys $20,000 of the same stocks on margin, putting 50% down. He's not making any timing decision; he is simply always on margin. A bull market ensues, and over the next year the stocks climb 25%.

The first fellow will make 25% on the money entrusted to him. The second will make 40% ($5,000 profit less maybe $1,000 of interest, or $4,000 net on $10,000 cash invested). The second will land at the top of some raw-performance chart. Is he smarter? Not at all. Entitled to a higher management fee? No, but if he's in the mutual fund business it's quite likely he'll get an influx of customers—all too often, at the wrong time.

Not very many funds, or private money managers, for that matter, buy on margin, but they can get the same effect without any overt leverage. They simply buy shares of companies that are leveraged. Parker Drilling and Schlumberger are both in the oilfield services business, but Parker is deeply indebted while Schlumberger sits on a pile of cash. Buying shares of Parker very much like buying shares Schlumberger on margin.

In short, raw performance numbe will not suffice. You have to adju them somehow for risk. The trac tional FORBES approach to rati funds is one way, but not the on one. Let me tell you about a meth of risk adjustment that has attractec considerable following among profe sionals and that I use in evaluati newsletters: the Sharpe ratio. comes from William Sharpe, a profe sor of finance at Stanford and a pi neer in portfolio theory. Sharpe te us to measure performance of a po folio and then divide by the units risk incurred to get there. The resu ing ratio enables us to evaluate wid ly divergent strategies and inve ment vehicles together on a lev playing field.

To make Sharpe's formula wor you first subtract from raw perfo mance the risk-free interest rate pr vailing at the time of investment. Y then get what we might call the su plus return. In a market going up 25 at a time when risk-free Treasury bil are yielding 10%, the surplus return 15%. Dividing this surplus return by measure of the volatility in a portfol gives you the Sharpe ratio.

Broker loan rates run a little high than T bill rates, of course, but keep the arithmetic easier let's a sume they're the same. In our hyp thetical case, the fellow buying margin was netting 40% a year ar would show a surplus return of 30% The unleveraged account would ha an excess return of 15%.

Looks like a 2-to-1 advantage f the margin account. Now throw the risk factor. Since the margin a count has $2 of stock positions f every $1 of equity, it is twice as vol tile. When the surplus return is divi ed by volatility, the two manage come out looking identical. Nev mind the exact method for assessir volatility, but if the conservati manager is rated at a volatility of, sa 100, then the margin buyer would h 200. They'd both have a Sharpe rat of 0.15.

The Sharpe ratio is a great equali er. A fund can't boost its score b simply buying on margin or buyir riskier stocks. The manager has t buy better stocks. He has to discov value where others don't.

Remember this when you look at list of top performers over the pa

ve years or the past ten. Notwithanding the recent crash, these were ullish periods. Some of the apparent inners were ordinary stock pickers iking extraordinary risks.

So who are the best performers by ne Sharpe measure? I compared statistics on 465 mutual funds in the ORBES database and 105 newsletter ortfolios tracked by the *Hulbert Financial Digest*. If only domestic portfoos are considered, newsletter portfoos take 9 of the top 15 spots *(see ible)*.

It's an interesting result, particularly since investment newsletters are ommonly thought to be much riskier than the typical mutual fund. In act, some of them have portfolios hat are fairly low in volatility.

The study covers performance for he three years ended June 30, 1988. nvestment results for both the newsetters and the funds reflect transacion costs such as brokerage commisions, but neither fund loads nor costs f newsletter subscriptions were figred in.

Don't, particularly if you have less han $250,000 in the market, read the esults to mean you must dump your und and try to play the stock market vith the help of an advice letter. It akes a lot of capital to maintain a ully diversified portfolio. (If you stint n diversification, you'll raise your isk and lower your Sharpe ratio.) Moreover, you may have to move fast n the newsletter recommendations, vhereas with funds the paid managrs do that work for you.

At any rate, the Sharpe ratio does a ood job of flagging funds and newsetters that, though they may have lone well, took on too much risk to lo it. Take the *McKeever Strategy Letter*, vhose model portfolio of commodity utures contracts is the third most isky of all 570 funds and newsletters n the study. On raw performance it anks 16th; on a Sharpe ratio basis it rops to 94th.

Similarly, Hartwell's Emerging Growth Fund (formerly Hartwell Leerage Fund) ranks 15th on raw perormance over the past three years. When adjusted for risk, its performance drops to 57th.

Contrast the three Mutual Series unds, above average in return and ow in risk. The oldest of the group, Mutual Shares, was long on the ORBES honor roll but dropped off afer the 1982-87 bull market got under way and the go-go funds forged to the front. In the current FORBES fund ratings *(see table beginning on page 172)*, Mutual Shares rates a D in up markets and an A+ in down—meaning it falls in the bottom 30% in bull markets but ranks in the top 5% in bear markets. Meanwhile, it was the 40th most profitable of all funds and letters over the past three years. But adjust its performance for risk, and Mutual jumps to 14th best since 1985. Meaning: Mutual delivered excellent performance at moderate risk, a good combination for most investors.

The Sharpe ratio has one failing: It doesn't work when the period of comparison is a runaway bull or bear market. It needs a mix of ups and downs to capture the full element of risk in an investing style. Domestic stocks have had a good run and then a crash since 1985, so the method is appropriate there. But international portfolios are another matter. Since results of U.S. fund managers are measured in U.S. dollars, their foreign portfolios have gotten an uncharacteristic boost from the dollar's decline.

Had we opened the footrace to foreign-stock funds, they would have swept the winners list, taking 12 of the top 15 spots. Number one would have been Vanguard Trustees Commingled International fund, with a Sharpe ratio of 0.50. (This fund is too new for the FORBES honor roll, by the way, but it does show up on our Efficient Funds list.) We'll have to come back in a few years to find out whether this fund holds up as the dollar rebounds.

Careful readers will note that newsletter writers who publish multiple portfolios got several slots in the starting gate. Of the 9 newsletter portfolios that made it into the top 15, all but the 2 Zweig letters and the *California Technology Stock Letter* are produced by multiple portfolio newsletters whose other submissions did not make the top grade. Mutual fund managers might object, but let's not forget that fund sponsors have been playing the multiple portfolio game for years.

In sum, don't take our winners list as proof that newsletters beat funds or vice versa. Instead, use it as a guide to see how well your fund or your newsletter copes with risk. And always remember: The chap who delivers great results in bull markets—market letter or mutual fund—may be taking extraordinary risks, which may cost you and him dearly when an unexpected bear market strikes. In investing as in sailing, you can't always run with the wind. ■

Sharpe shooters

The Sharpe ratio compares performance—in total return—to risk. Some newsletters stack up fairly well against the best funds.

Newsletter or fund	Sharpe ratio[1]	Annualized total return[2]	Risk rating
Mutual Fund Strategist (Fidelity Diversified Portfolio)	0.47	27.3%	very low
Princeton Portfolios (Long-Term Portfolio #2)	0.37	47.4	very high
Fund Exchange Report (Taxable Bond Portfolio)	0.32	11.2	very low
Zweig Forecast	0.31	26.2	average
Mutual Series Fund–Beacon	0.30	22.2	low
Zweig Performance Ratings Report	0.29	21.1	low
Oppenheimer Gold & Special Minerals	0.28	34.7	very high
Eaton Vance Income Fund of Boston	0.28	12.8	very low
Merrill Lynch Phoenix Fund	0.27	21.1	low
Professional Timing Service (Gold Trading Portfolio)	0.27	13.5	very low
Mutual Series Fund–Qualified	0.27	20.1	low
Mutual Series Fund–Mutual Shares	0.26	19.5	low
Professional Investor (Investment Grade Stocks)	0.26	29.7	high
Option Advisor (Conservative Portfolio)	0.26	40.3	very high
California Technology Stock Letter (Model Portfolio)	0.26	30.4	high
Standard & Poor's 500	0.16	16.4	average

[1]Average monthly return, less average monthly T bill rate divided by standard deviation of monthly return. [2]June 30, 1985 to June 30, 1988

The unit trust concept, a big marketing success in bond funds, doesn't look so brilliant when applied to equities.

One-decision funds

By Jonathan Clements

SPONSORS of unit investment trusts—closed-end bond funds with fixed portfolios—have enjoyed a big success, capturing $115 billion of the $1 trillion fund industry. Now some brokers are extending the unit trust idea to stocks. It looks like an idea whose time hasn't come.

For the bond buyer, a unit trust has its advantages. A cautious investor can get the diversification of a conventional bond fund while avoiding the high annual expenses of an actively managed portfolio. The trust sponsor buys, say, $15 million of bonds, spread among 20 issues, and holds them to maturity. The trust is divided into $1,000 units that pay monthly interest and repay the principal as bonds mature or get called. The sales load is typically 4%, high compared with no-load funds but comparable to commissions on load bond funds. Since there is no active management, annual expenses on a unit trust are perhaps 0.3% a year, lower than the 0.8% to 1% typical of bond funds.

For two decades, until 1980, unit trusts invested almost exclusively in bonds, especially municipal bonds. But now some Wall Street firms have applied the idea to equities. A good investment? Hardly.

The biggest marketer of equity unit trusts has been Hutton; these sales have continued under new owner Shearson Lehman Hutton, which has sold over $1 billion of unit trusts since 1982. Buyers get portfolios of 30 supposedly undervalued stocks, commonly selected for their 12-month appreciation potential. A year later the stocks are sold and the proceeds distributed. The first 45 unit trusts issued in Shearson's Directions series—all those that expired before the end of 1987—on average trailed the dividends-reinvested S&P 500 by 4.1%. If you add back the sales charge, usually around 4%, the trusts treaded water.

Dean Witter, Merrill Lynch and Prudential-Bache have also gotten into the act, bundling stocks from one sector or stocks from the firm's recommended list into portfolios that are liquidated after a year. None of them has a record as long or as statistically meaningful as Shearson's. But initial indications are that investors will get nothing dazzling for their 4% fee. None of Dean Witter's four trusts, and only one of Prudential-Bache's, has terminated. The best of Merrill Lynch's four funds, a trust composed of o-t-c stocks, trailed Nasdaq stock prices by 1%.

Yet the total of outstanding equity unit investment trusts is $4.3 billion, up 86% in two years and growing faster than taxable or tax-free bond trusts.

The 45 Shearson portfolios were se lected by mechanical screening rule on the basis of data from its researc department. Generic portfolio man agement like this is bound to have a average performance that is, well, av erage. The system isn't built to permi a brilliant individual—a Peter Lync or John Neff—to develop a superio record and attract a following.

Sponsors of one-year equity trust sometimes give a break on the sale commission to unit holders who ar rolling over money from an expirin trust from the same sponsor. Inves tors in the recently launched Direc tions U.I.T. Series 64, who paid Shear son an initial 4% sales charge, ca switch into a new trust by paying reduced sales charge of 3.5%. Kee rolling it over year after year, howev er, and it becomes a mutual fund tha charges a 3.5% annual expense ratio an outlandish amount. Many fund with excellent records are availabl with expense ratios under 1%.

But sometimes the trust concep makes sense, for the investor wh wants to make a specific investmen play. Shearson's Utility Value Trust launched last October, held 60 elec tric companies selected as potentia takeover targets. The trust won't b liquidated until 1992, so the initia 4% sales charge doesn't seem too pu nitive, and there's plenty of time fo the mergers to happen. Says Shearso analyst Edward Tirello, who selecte the stocks, "It takes out the worry o trying to guess who's next." So far on of the utilities, Savannah Electric & Power, has been gobbled up at a 15% premium by Southern Co. San Dieg Gas & Electric now has two merge offers—from SCEcorp and Tucso Electric Power. Since inception, th utility trust is up 8.1%, against abou 11% for a utility average.

Another plausible unit trust is Mer rill Lynch's Equity Income Fund S&P 500 Index. Investors paid roughly 4.5% sales charge to get into a func that will track the S&P 500 whil paying around 0.1% annually in fees (They can always get out at net asse value. New buyers come in through the secondary market at 4.7% ove net asset value.) Of course, open-enc funds do the same thing. The Vanguard Index Trust is no-load but has a higher expense ratio, 0.26% annually The Merrill Lynch offering would be a better deal for anyone who stays in fo 29 years or more. One problem: Th trust terminates in 2008. ■

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Your broker will be happy to give you a chance at a piece of the action in LBOs. But you may be coming a little late to the party.

What price buyouts?

By Jason Zweig

A STRANGE FEVER has gripped investors, making them think that leveraged buyouts are a sure path to wealth. It all started four or five years ago, when William Simon and his friends made a 200-fold return by taking Gibson Greetings public not long after acquiring the company in an LBO. All over Wall Street, eyes lit up with greed and envy. Soon the great Eighties LBO rush was under way. The recent bankruptcy of the Revco drug chain, subject of a late-1986 LBO, seems scarcely to have cooled the frenzy at all.

It may be no surprise that the general public has of late been invited to participate. At least two new funds and three limited partnerships that can invest heavily in leveraged buyouts have been introduced since October of 1987. Are they a good buy, in spite of their sometimes stiff sales loads and expense ratios? Maybe. But it's just possible that all the easy money has been made in LBOs and today's investors will discover that they have bought at the top.

LBO funds come in a range of flavors. At one extreme is a venture capital partnership that arranges takeovers and buyouts, supplies some capital and gets a piece of the equity. At the other extreme is a passively investing high-yield bond fund whose portfolio happens to contain takeover-related junk bonds. The table at right includes partnerships with an [illegible] $5,000 minimum and [illegible] at least 20% of their portfolios in [illegible] securities. We exclude new funds, like Zenith Income and New America, which can buy large amounts of LBO securities but so far own almost none.

Financing for most LBOs consists of high-yield debt plus an equity kicker in the form of warrants, shares or conversion rights. The debt may be publicly traded, but the shares or warrants aren't. If the deal pans out, the owners take the company public in a new share offering some years later. The venture capitalists who made the deal can then cash out.

Given their need for maximum liquidity to cover the redemption of shares, open-end mutual funds seeking to participate in LBOs are largely limited to publicly traded junk bonds. But two kinds of investments are not bound by those rigid standards of liquidity: closed-end funds, whose shares are bought and sold like common stock without redemptions by the sponsor, and limited partnerships, whose units are usually traded privately at a negotiated price.

Do the equity kickers raise the risk level of a fund? Not necessarily. "We think [our fund] is conservative," says Duncan McFarland, senior vice president at Wellington Management Co., adviser to the High Yield Plus Fund. This is a closed-end offered by Prudential-Bache in April. McFarland projects an 11% to 12% current return, adding that "we'll get extra return from equity rather than through higher credit risk."

Probably the first LBO fund, begun in 1971, is MassMutual Corporate Investors. The NYSE-traded Corporate

Leveraged buyout funds

The public is being invited to get in on the LBO business. But investors sometimes have to pay stiff upfront fees or annual expenses.

Name	Assets[1] ($mil)	Premium(+) or discount(-)[2]	Upfront cost[3]	Annual expenses per $100[4]	Offer date
Closed-end funds					
High Yield Plus	$99	0%		$1.15[5]	4/88
MassMutual Corp Investors	132	+16.9		1.01	9/71
Revere Fund	34	–10.4		1.43	9/71
Franklin Holding Corp	16	–35.5		7.69	10/87[6]
Limited partnerships					
Equus Investments I	33		11.4%	2.79	11/84
Equus Investments II[7]	5		14.9	1.14	10/87
Equitable Capital Partners[8]	750		11.8	1.45	7/88
ML-Lee Acquisition Fund	453		8.0	1.45	11/87

[1] For limited partnerships: net proceeds from offering. [2] Excess of market price over (+) or discount from (–) net asset value as of June 30. [3] Percent of initial investment deducted for fees. [4] Excluding interest and taxes. [5] Projection. [6] Date of [illegible] is registered investment company. [7] Still open to new investors. [8] Still in registration; all numbers are projections.

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Investors has half of its assets in LBO securities. It owns debt and equity in the world's largest maker of motor vehicle thermostats, a maker of dry-cleaning tags and a maker of nut-harvesting equipment. That motley assortment was good enough for a 19.5% annual return over the five years ending Dec. 31, 1987, compared with 12.3% for the Merrill Lynch Corporate & Government bond index. But the fund isn't necessarily a good buy now. Thanks to its superior record—and perhaps also to the market's irrational infatuation with its 10% dividend—Corporate Investors is trading at a 17% premium to net asset value. Most closed-ends eventually sink to a discount to net asset value, so it is risky to pay a big premium.

As for annual expense ratios, they range at the funds from 1% to 1.5%, a little on the steep side. Franklin Holding Corp., a recently reorganized closed-end, has a hair-raising expense ratio of 7.69%.

Limited partnerships charge much larger fees—as much as 15% up front. Then you may have to wait years for the returns. For example, Equus Investments I, a Houston-based partnership clutching an LBO grab bag of taxicab, towboat and computer services firms, took $114 in initial fees from each $1,000 unit its limited partners purchased in 1984. In early 1988, after quarterly income distributions totaling $152, the units hovered around $1,000 in net asset value.

Most LBO partnerships have ten-year terms, and the units are not publicly traded, so they are even less liquid than the securities they contain. But they can do much better, assuming their LBOs work out, since they typically go in heavily for equity positions. Boston-based buyout specialist Thomas Lee says the group of private partnerships his firm runs took in a total of $29 million between 1980 and August 1987, and at that time was worth $172 million.

Pretty impressive. But limited partnerships like his carry heavy fees, since the general partner serves as godfather to deals, finding corporate managers who need money to do a buyout, providing capital and then getting equity in the LBO.

What should you look for in an LBO partnership? "Choose people with a long and successful record," says Philip Behr, partner at Adler & Shaykin, which runs a private LBO partnership. And make sure the general partner has at least 1% equity in the venture. Explains Alfred Eckert, a partner at Goldman, Sachs: "You want to make sure the manager has the same interests as the investor." Next, pay careful attention to fees.

Finally, don't invest a dime without thinking long and hard about whether the LBO pond has perhaps gotten fished out. ■

If camels are horses designed by a committee, then some fancy new index funds are the camels of the mutual fund business.

Look what they did to index funds

By Kathy Murray

INDEX FUNDS SOUNDED LIKE a great idea. Investors would put their money in a passive fund that merely tracked the market's performance. Settling for an average return is a bit defeatist, but it had some logic to it. Since funds on average barely keep up with the market, went the argument, there's no sense paying good money to try to beat it. John Bogle, who runs the $32 billion Vanguard Group of funds, declared that he had all his IRA money in the Vanguard Index Trust.

Mediocrity, however, has been something of a box-office flop. Says Michael Lipper, president of Lipper Analytical Services: "The index fund concept just isn't working at the retail level. [The funds] have an intellectual appeal, not an emotional one. People don't want them because everybody thinks they have the chance to perform better than average."

Although there are approximately 20 index funds available to retail buyers, tracking everything from British equities to Florida growth companies, only four have topped $100 million in assets. Perhaps as a result of the public's cool response, some fund sponsors have veered away from the original purpose of indexing, which was to provide plain but low-cost money management. Now they are pitching various enhancements.

Several index funds buy only small capitalization companies, on the the

ory that these outperform the market as a whole. The Gateway Option Index Fund tracks the S&P 100 but writes call options against the portfolio. Even Vanguard has gotten into the enhanced-index game. Chairman Bogle has switched his IRA into the new

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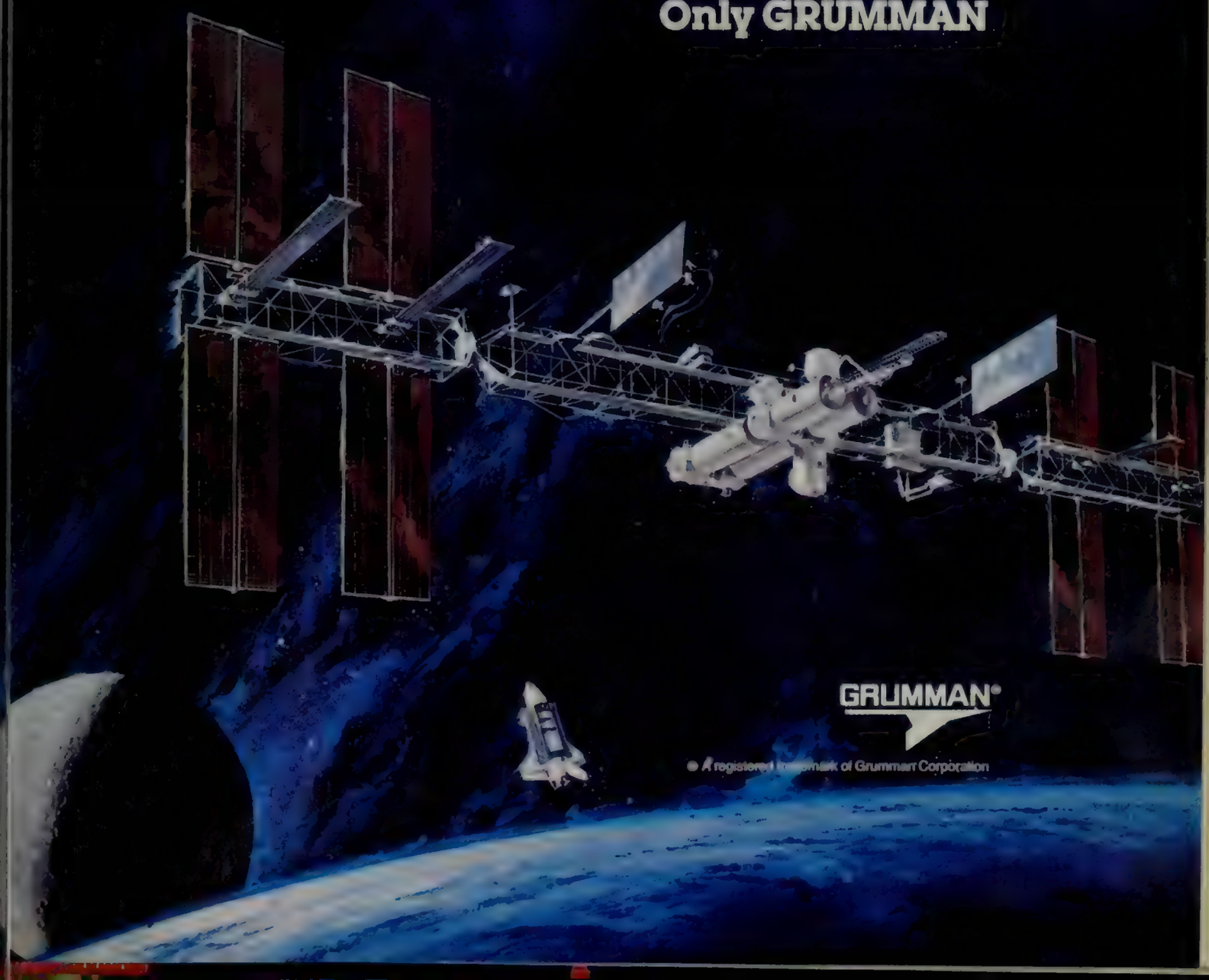

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Vanguard Quantitative Portfolios Fund, which is intended to resemble the S&P 500 but beat it slightly by cherrypicking the better stocks.

"Most investors can't live with the idea of buying average on purpose," explains Colonial Group Senior Vice President Jarrod Wilcox. "So some managers are trying to dress their funds up with something that may not perform any better but sounds better."

As for keeping fees low, the managers of some of these funds have really dropped the ball. Gateway Option's expenses run 1.48% a year, one reason it has lagged the market over the past three years. At least half of the index funds available to individual investors have expense ratios of 1% or over, which is about what you'd pay for an actively managed fund. Colonial's S&P 500 fund slaps investors with a 4.75% load and an annual expense ratio, including a 12b-1 marketing fee, of 1.25%. That's a lot of money to hand over to a fund manager who isn't supposed to be thinking about what he's doing. Colonial's Wilcox concedes his funds' fees are somewhat "higher than average," but says that's because his three index funds—the largest has $45 million in assets—are still fairly new and too small.

Why, though, should you pay the freight for Colonial Group to build up a profitable level of business? If you want to track the S&P 500 index with a fund, the only plausible option is the Vanguard Index—500 Portfolio, with no load and an expense ratio of 0.31%. Its assets are now a healthy $1 billion. Some of the index funds tracking foreign markets are good buys, too, but they tend to have very steep minimums *(see table)*.

For bigger investors, there's an even cheaper alternative. Instead of an index fund, buy an index future. Depos $135,000 worth of T bills with you broker and buy one S&P 500 future o the Chicago Merc. This will give yo almost the same result as puttin $135,000 in the Vanguard Inde Trust. The future would have to b rolled over four times a year, for com missions of about $120 at a discour broker. But Vanguard's 500 Portfoli would run $351 a year in overhead o a $135,000 account.

The Philadelphia and America Stock Exchanges and the Chicag Board Options Exchange are seekin regulatory approval for cash index in struments that would resemble a po sition in an index future but woul never expire.

Don't get confused about wha you're looking for. If you're willing t pay for performance, find a fund wit a superior record. If you want to trac an index, insist on low costs. ■

A motley crew of index funds

The whole point of an index fund is passive management and low fees. But some purveyors offer fancy enhancements, and others run up hefty expenses. Is it possible that they have lost sight of their mission?

Fund	Index	Assets ($mil)	Expense ratio	Load	Latest 12-month total ret	Minimum initial investment
Bench Port—Blue Chip	Dow	$6	*1.89%*	2.00%	–8.5%	$1,000
Colonial US Equity Index Tr	S&P 500	42	*1.25*	4.75	–7.9	250
Colonial Intl Equity Index Tr	Morgan Stanley Capital Intl EAFE[1]	8	*1.65*	4.75	–0.8	250
Colonial Small Stock Index Tr	lower 20% of NYSE capitalization	45	*1.35*	4.75	–2.3	250
Composite Select-Northwest	Murphey Favre 50[2]	8	*1.36*	4.00	–3.0	1,000
DFA Small Co Portfolio	smallest 2 deciles of NYSE and same-size Amex or Nasdaq	969	0.61	none	–4.9	50,000
DFA Japanese Small Co Port	lower 50% of first section of TSE	84	0.78	none	66.8	50,000
Fidelity US Eq Index Portfolio[3]	S&P 500	3	0.28	none	NA	100,000
Florida Index Fund	25 Florida stocks	0.2	*1.40*	none	–3.9	100
Gateway Option Index	S&P 100	28	1.48	none	–4.6	500
OTC 100 Fund	Nasdaq National Market	106	*0.72*	none	–7.2	100,000
Principal Preservation	S&P 100	17	*1.30*	4.50	–7.4	1,000
Rushmore OTC Index Plus	Nasdaq National Market	13	1.00	none	–6.3	2,500
Rushmore Stock Mkt Index Plus	S&P 100	12	1.00	none	–8.1	2,500
United Services LoCap Fund	NYSE/Amex lowest decile	3	2.25	none[4]	6.4	100
Vanguard Index—500 Portfolio	S&P 500	957	0.26	none	–7.5	1,500
Vanguard Bond Market Fund	Salomon Brothers Bond Index	54	0.14	none	7.0	3,000
Vanguard Extended Mkt Portfolio	Wilshire 4500[5]	26	0.26	none	NA	1,500
Vanguard Quantitative Portfolio	selected S&P 500	154	0.64	none	–6.2	3,000

Expense ratios of funds with 12b-1 [illegible] are shown in italics. [1]Index of stocks from Europe, Australia and the Far East. [2]Regional brokerage index of local companies. [3]Opened operations [illegible] individual investors to date. [4]A 2% load for redemption within six months. [5]Wilshire 5000 minus S&P 500. NA: Not available.

Sources: Lipper Analytical Services, Forbes

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Mutual fund ownership can make your complicated tax return even more complicated. Have you, for example, thought about phantom taxes, loss carryforwards and the foreign tax credit?

Tax angles

By Laura Saunders

PROFESSIONAL MANAGEMENT is supposed to take the headaches and bookkeeping complexities ut of investment. Unfortunately, wning a fund does not necessarily implify your taxes. It could make nem more complicated.

The specter of phantom income, for nstance, is again haunting mutual nds. If Congress doesn't act his year, fund investors will ave to pay taxes on income ney don't have. The problem rose in a provision of the 1986 ax act limiting deductions tak- n for portfolio expenses. At- empting to put fund owners in e same boat with people who uy their stocks and bonds di- ectly, lawmakers decreed that nds should report their gross nvestment income rather than e net as taxable income of the nareholders.

Suppose, for instance, your 100,000 fund investment gen- rates $4,000 of corporate divi- ends minus $1,500 of advisory ees and overhead. Your fund istribution would be only $2,500, ut you'd owe taxes on the whole 4,000. The way the fund industry ees it, this means you're paying taxes n $1,500 of phantom income.

Trouble is, Congress can't make up s mind whether to carry out this arsh treatment of fund shareholders. gave investors a temporary reprieve om the rule last year by postponing until the 1988 tax year, but no one nows whether the reprieve will be xtended.

A good defensive strategy under the circumstances is to pick low-fee funds such as those on our Most Efficient Funds table. The lower the expenses, the less you'll suffer if the phantom is let loose.

Phantom income, however, won't afflict shareholders in municipal bond funds. There the whole $4,000 of gross income is exempt, so there would be no deduction for the $1,500

permitted in any event. Nor does a sales load give rise to phantom income: This fee works into your tax cost for fund shares and is taken into account in the capital gain or loss reported when you sell the shares.

So much for the phantom income nightmare. What else do fund shareholders have to know about taxes?

The first principle of fund taxation is that the fund is a conduit. It passes its net income (but not losses) through to shareholders without paying any corporate tax of its own. Funds must distribute nearly all their realized income to shareholders each year to retain this tax-favored status.

Shareholders are taxed on these distributions even if they choose to reinvest them, as many do. But those reinvested sums do help later. They are treated as additional purchases of fund shares, thus raising the total purchase price for the fund investment. When you sell, your taxable gain will be correspondingly lower (or your deductible loss higher) by the amount of those reinvested dividends. Taxpayers often miss this adjustment and pay higher taxes than they should.

Other tips:

Don't buy a tax bill. If you invest just before a big distribution, you will owe a tax on your capital gain, even if you have no economic gain at all. Say you buy 100 shares of a $10 fund. A week later the fund distributes $1 per share, leaving you with $100 to reinvest plus original shares worth $900. You still have $1,000 total, but now you owe taxes on the $100. Of course, if you closed out your position you'd have a $100 "loss" on the shares to offset the $100 capital "gain" distribution. But what if you don't want to leave the fund? Then you're stuck paying taxes on $100 before you have even made a dime. Better to wait and buy after big distributions. You can usually tell when they are coming from the fund's prospectus.

Be wary of latent taxes. If you buy a fund full of unrealized gains from bull markets past, you are buying potential tax trouble. Say Winners Fund has $10 a share in asset value, $4 of which consists of a position in Compaq Computer bought long ago at a fourth of its present value. The manager decides to get out of Compaq. Closing the position will generate a $3 capital gain per fund share. You've got a tax bill even if you haven't made a dime yet in Winners. And remember that capital gains no longer receive favored treatment but are taxed just like interest and dividends.

Moral: Be wary of a fund with a large amount of net unrealized appreciation (unrealized gains less unrealized losses). You can find out these figures from the annual report, prospectus or statement of additional information. Conversely, unused past losses, either in the form of a tax-loss

carryforward or a net unrealized loss, help the investor. They provide a sponge that can soak up future gains, thereby postponing tax bills.

Don't miss the foreign tax credit Funds that invest 50% or more of their assets abroad qualify for the foreign tax credit, which they pass through to shareholders: If your fund qualifies, it will send you a written notice that details your foreign tax credits.

Furnish your Social Security number If it's not there or is incorrect, the fund must collect withholding taxes, causing endless hassles, notes James Muller of New York City's McGladrey & Pullen.

Beware of state taxes. They are more important than ever, now that the benefit of deducting them on your federal return has dropped to 33% or less from as much as 50%. Several states, including New York, Massachusetts and Connecticut, have extra-high rates on "unearned" income. For an analysis of double-tax-free muni funds, see page 152.

Sell losers. No-load funds are easy sources of capital losses, which can shelter capital gains plus up to $3,000 of ordinary income. Simply telephone-switch out of a losing position. To avoid running afoul of the IRS' wash sale rules, don't buy back in within 30 days. If you feel you must remain fully invested, consider buying a similar fund from a different no-load distributor.

If you buy a fund with a guarant yield, hire an accountant. Some fu attempt to attract investors by gu anteeing a minimum payout, whet they earn it or not (among them: belli Equity Trust and Zweig Fund the distribution is not earned, the t able income will be less than payout, because the fund is in eff giving you back a portion of y own money. Meanwhile, you m reduce the tax "basis" of your inv ment by the amount of the sh fall—unless you reinvest distri tions, in which case things can even more complicated.

Better yet, steer clear of these fu altogether. ■

If you want some extra yield and will accept an extra bit of risk, a municipal lease fund may be for you.

Nonbond bonds

By Edward F. Cone

OWNING A PORTABLE JAIL in Flower Mound, Tex. may not sound like a great investment for people seeking fixed income, but that's exactly the type of investment two smart municipal bond funds are making these days. They are municipal lease funds, an investment category just four years old. The leases throw off federally tax-exempt income and thus are a suitable holding for a muni bond fund. Often the lease can deliver better returns than comparable tax-exempt bonds.

Indeed, over the past year, among the top-performing intermediate-term tax-exempt bond funds was one that was not a conventional bond fund at all but Hutchinson, Fox' Municipal Lease Securities Fund with a 7.8% return. Continental Heritage's Tax-Free Income Fund, the holder of the Flower Mound jail lease, turned in a respectable 6% return *(see table p. 152)*.

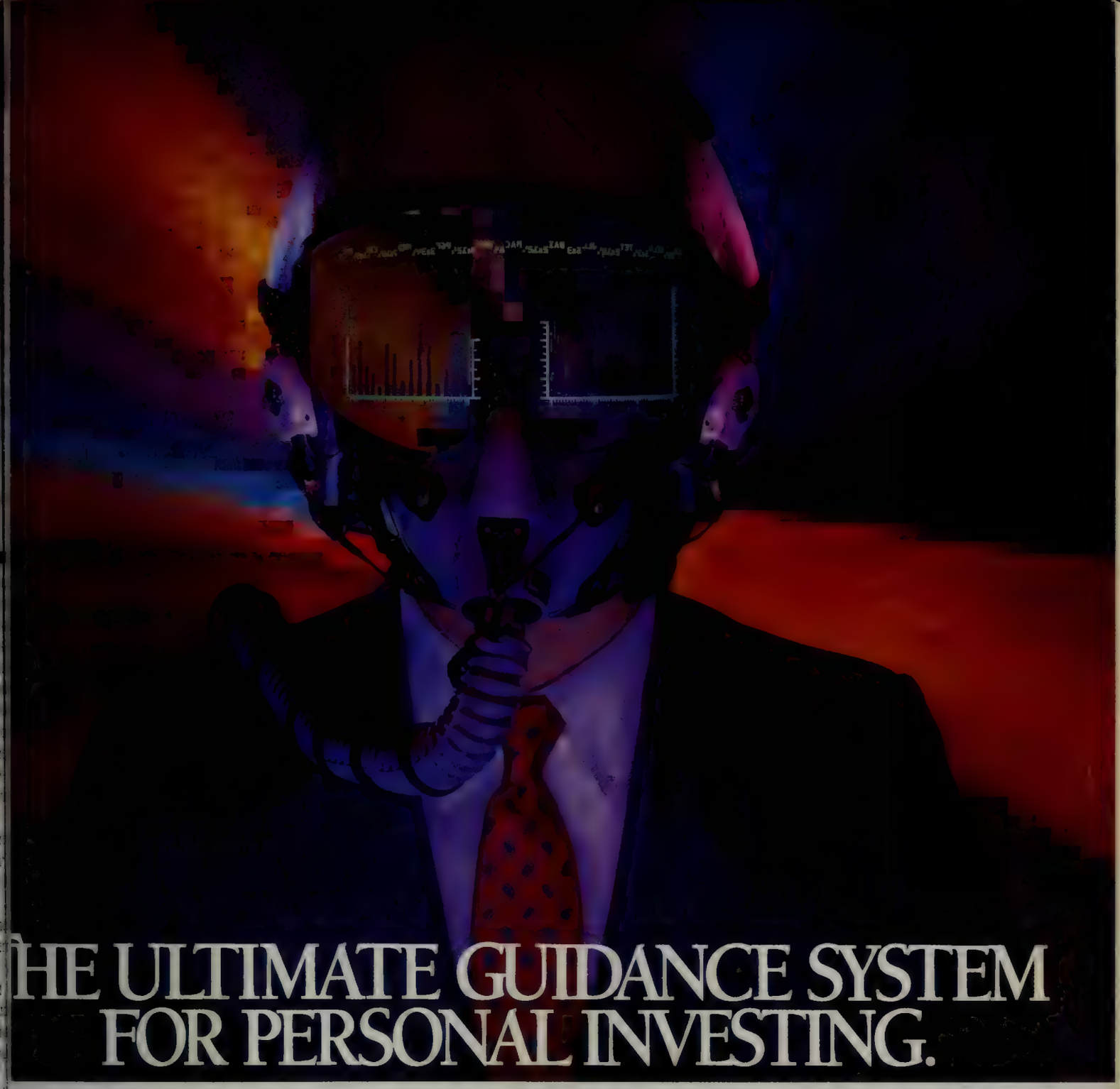
The Continental Heritage fund

owns jail cells—and firetrucks, bage trucks and phone systems—o on paper, since the tenant, a city some governmental body, agrees buy back the property at the en the lease. In effect, then, the fun not so much a landlord as a len The IRS recognizes the transactio more a loan than a lease, and tr the payback on the lease as tax empt interest income rather t rental profit.

The Flower Mound jail—a pr structure—cost the small town tween Fort Worth and Dallas $75, The fund put up all of the cost, recoups it in monthly installm over 3¾ years with 9.25% inte This lease is comparable to a short term bond. Since part of principal is returned every mont the lease payment, the average m rity of the outstanding principa only two years.

Lease interest rates are general percentage point or two hi than rates on muni bonds from same issuer. What's in it for municipality? Leases are easier cheaper than bonds because don't require the time, expense voter authorization of a bond is The investor, meanwhile, exp a premium yield on leases, s they are somewhat riskier than faith and credit obligations. W most leases allow the lessor t possess equipment in event o fault, owning a slightly used phone system somewhere in G gia is not the dream of the ave investor.

Another drawback: There scant resale market for the l



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Muni fund alternatives

Returns on municipal lease funds stack up fairly well against those of garden-variety intermediate-term tax-exempt bond funds.

Fund	Assets ($million)	Total return last 12 months	Annual expenses per $100
Hutchinson, Fox Municipal Lease Securities	$10	7.8%	$0.00p
Continental Heritage Tax-Free Income	11	6.0	0.00p
Limited Term Muni–Thornburg*	165	7.3	*1.15p*
Dreyfus Intermediate Tax-Exempt Bond	1,035	5.6	0.72
Merrill Lynch Muni Ltd Maturity	567	4.8	0.40
Vanguard Muni Bond Fund Intermediate	804	7.9	0.26

*Fund has 10% of assets in municipal leases p Net of absorption of expenses by fund sponsor *Expense ratio includes if fund has shareholder paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force*

themselves, which causes a bit of a liquidity problem. What if a lot of shareholders redeem? The Continental Heritage Fund in Denver keeps a hefty 15% or so of its assets in short-term tax-exempt notes, which are readily saleable but carry yields of only 5.25%. Another strategy is used by Chicago's Hutchinson, Fox, which keeps almost 100% of its fund in leases, with liquidity provided by buy-back agreements with banks.

Only two pure-play lease funds are currently operating, both too small to be rated in FORBES. Hutchinson, Fox' two-year-old fund has assets of $10 million, while Continental Heritage's year-old fund in Denver has assets of $11 million. With a load of 2%, Hutchinson, Fox' fund was not pushed hard by brokers, and the fund increased the load to 4%, comparable to Continental Heritage's 3.75%.

Municipal leases do have some doubters, who worry that rates will b driven down by competition from lc cal banks just as the funds are begir ning to gain popularity. The creator c the municipal lease fund concept, F Garrett Thornburg Jr. of the Limite Term Municipal Fund in Santa F now has less than 10% of his fund assets in leases. Why? "The good pa per is too hard to find," he complain "The local banks snap up all th prime small leases, and the hug leases are just like bonds."

Responds Hutchinson, Fox' Hov ard Hutchinson: "I could easily sper $4 million to $5 million a month o new leases. Things could overheat that was upped to $15 million, bu that's a problem we just don't hav right now."

Say this: There are a lot of leas out there, perhaps $2 billion suitab for funds. "We are looking for nece sary equipment, not research compu ers that could be rendered unimpo tant if a professor retires," says Edwi Pittock, president of Continental He itage. "Communities just need ce tain items—firetrucks, for example and that's where we can make mon for investors." ■

With tax avoidance a national pastime, "double-tax-free" muni funds are selling. But sometimes you're better off buying something else and paying the taxes.

One-state muni funds

By Eric Schmuckler

EVERYONE WANTS to pay less in taxes. That explains the tremendous growth in municipal bond funds that hold issues from a single state. For residents of that state, income from the fund is exempt from both federal and state taxes. The funds are called "Double-tax-free." According to Lipper Analytical Services, such funds have quadrupled since 1985, to $30 billion in assets.

Before buying, though, you should ask yourself: Exactly what is the tax exemption worth? You may be better off with a national muni bond fund exempt only from federal taxes, or perhaps even with a federally taxable Treasury bond.

First order of business in picking fixed-income investment is the sal load. Some muni funds have sal loads of up to 7.25%. A load that hig just about destroys any tax advanta you might get from buying municip bonds, unless you plan to hold f years and years. Can you really sure you won't need the money soo er? That you will never need to su tain a capital loss by switching out the fund in a bear market?

Apart from loads, four factors dete mine the aftertax return on a fixe income investment: your combin state and federal tax bracket, the i terest-rate risk you take, the cre risk you take, and your annual mai tenance cost or expense ratio. As turns out, many one-state funds are good deal, especially low-expen funds in high-tax states.

For an example, let's look at wh these four factors mean to a Californ resident pondering what kind of bo fund to buy. First, taxes. Income fro a national muni fund would be fed ally exempt, but subject to a sta income tax of up to 9.3%. Since sta income taxes are deductible on a fe eral return, the effective Californ tax is only about 7%. In contrast, t

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In money market or bond funds, other things being equal, lower costs result in higher yields month after month. And in equity funds, lower costs can enhance the compound rate of total return achieved over time. Last year, we operated at an expense ratio that was less than *one half* of that charged by the average major mutual fund complex.*

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Vanguard's 54 separate investment portfolios include 15 equity strategies that range from sector funds to our new conservative Equity Income Fund. Our fixed-income strategies include a variety of tax-free and taxable money market funds as well as long-term bond funds.

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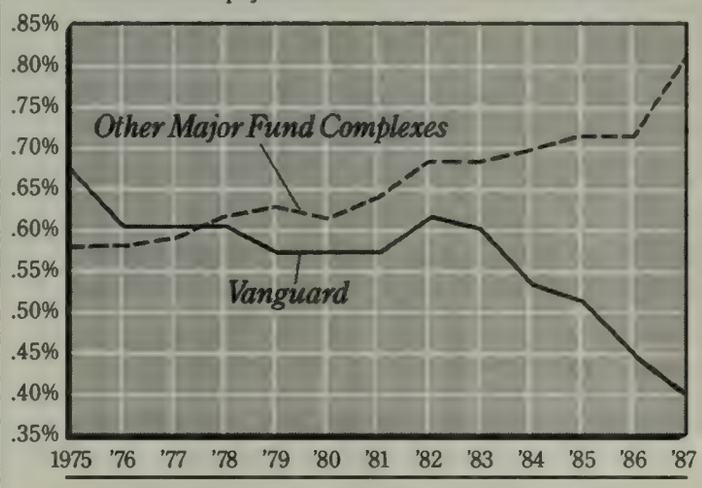

Comparative Expense Ratios: 1975–1987

5. The Service Advantage: Timely response and candid information

Vanguard Fund shareholders receive timely and accurate statements and promptly answered telephone calls. What's more, we offer Vanguard Fund Express, which provides electronic access to shareholder assets. And Vanguard's 24-hour Tele-Account gives price and yield quotations.

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*Source: Lipper Analytical Services

**Total expenses excluding incentive/penalty fee as a percentage of average net assets.

interest income from a California-only bond fund is tax-exempt for California residents, for a combined rate of 0%.

Next, interest-rate risk. Short-term general obligation California bonds pay about 5.3%, the longest maturities about 2 points more. The state's 7.1s of 2005, for example, trade at a price that delivers a 7.2% yield to maturity. The longer the maturity, the greater the yield—but the greater, also, the risk you take that rates will rise and the value of your bonds will go down. Some general muni bond funds, and even one-state funds, are designed specifically for the intermediate or long term. When comparing investments, make sure you are comparing investments of similar maturity.

Next, credit risk. Muni bonds from Texas sport terrific yields, but they have a somewhat greater likelihood than other bonds of going into default. California bonds tend to be of higher quality. Again, try to compare apples to apples.

Last but far from least important, pay close attention to expenses. The average for general muni bond funds is around 0.82% a year. If your one-state fund costs 1.5% in overhead, you've probably got a lousy deal. It will be very hard for you to make up the difference with the double-tax-free feature.

So what's the best choice for a Californian? With the effective state tax rate of about 7% and with yields in the 7.2% area, you are looking at half a point in extra after-tax return by virtue of the double tax exemption. That makes a California muni fund a good buy, provided that you do not pay extra-high expenses for the privilege.

You probably won't. Our sample of California state funds shows an average expense ratio of 0.7[illegible], slightly lower than the national bond funds' average expense. What about yields? Does the demand for local bonds from all those California taxpayers push down the yields on California bonds? Yes. The yield to maturity on California's long-term general obligation bond, 7.2%, is a half-point below the national average of 7.7%. (For a selection of good performers among the one-state funds, see table.)

Muni yields in other high-tax states, such as New York and Massachusetts, also may be a bit depressed, but the half-point or so of tax avoidance overcomes this disadvantage. The one-state advantage disappears, though, in low-tax Pennsylvania and New Jersey. The average yield of a New Jersey muni fund falls short of the average national on[illegible] by about 0.1%, wiping ou[illegible] the benefit of avoidin[illegible] New Jersey's low taxes. (Don't forget that you[illegible] New Jersey taxes are de[illegible]ductible on your federa[illegible] return.)

If you live in a high-ta[illegible] state like Connecticut bu[illegible] can't find a satisfactor[illegible] double-exempt fund, con[illegible]sider buying U.S. Trea[illegible]sury bonds. Long Trea[illegible]surys are currently yield[illegible]ing 9.4% to maturity. That's about 6.7% afte[illegible] federal tax if you'r[illegible] wealthy enough to be i[illegible] the 28% federal tax brack[illegible]et (upper-middle-incom[illegible] citizens, by contrast, ten[illegible] to be in the 33% bracket).

The key point here i[illegible] that Treasury interest is exempt fron[illegible]city and state tax, so 6.7% is the net[illegible] net return. Compare that with wha[illegible] you can expect from a national mun[illegible] bond fund. If it buys only the highest[illegible] grade munis, it will gross about 7.7% and show maybe 6.9% after expenses. Now figure in stiff local taxes. Con[illegible]necticut's rates go as high as 12% although you get some of that back b[illegible] deducting the Connecticut tax o[illegible] your federal return. You would b[illegible] keeping maybe 6.3% from a nationa[illegible] muni fund.

One point working in favor of th[illegible] Treasury bond is that you don't hav[illegible] to buy it through a fund. If you hav[illegible] $10,000 to invest, you can buy a [illegible] bond directly from a Fe[illegible]eral Reserve Bank and pa[illegible] no expenses whatsoeve[illegible] Selling it before maturit[illegible] however, will cost you [illegible] broker's commission [illegible] maybe 1%. (Municip[illegible] bonds, of course, can b[illegible] purchased by individual[illegible] but what with high[illegible] commissions and a nee[illegible] for diversification, yo[illegible] probably shouldn't bu[illegible] munis directly if you hav[illegible] less than $250,000 to i[illegible]vest.) Directly purchase[illegible] Treasurys are likely t[illegible] beat general muni func[illegible] in high-tax states by 10 t[illegible] 20 basis points (0.1% t[illegible] 0.2%) but lose in low-ta[illegible] states by 30 to 40 bas[illegible] points. ■

One-state wonders

Below, a selection of double-tax-exempt funds that offer above-average 12-month returns and decent expense ratios. All but one are no-loads.

Fund	Assets ($mil)	Total return (12 months)	Annual expenses per $100
Fidelity Calif Tax-Free–Insured	$47	7.8%	$0.65p
Safeco Calif Tax-Free Income Fund	31	7.1	0.72
Scudder California Tax-Free Fund	158	7.4	0.88
Putnam Mass Tax-Exempt Income	53	7.7	NA*
Fidelity State Tax-Free–Minnesota	88	7.4	0.79p
Fidelity NY Tax-Free–Insured	156	6.9	0.67p
Scudder NY Tax-Free Fund	119	7.4	0.95
T Rowe Price NY Tax-Free Bond	29	7.2	1.00p
Fidelity State Tax-Free–Ohio	135	7.3	0.79p
Vanguard Penn Tax-Free–Insured L-T	227	7.7	0.31

*Fund also carries a 2.5% sales load. p Net of partial absorption of expenses by fund sponsor

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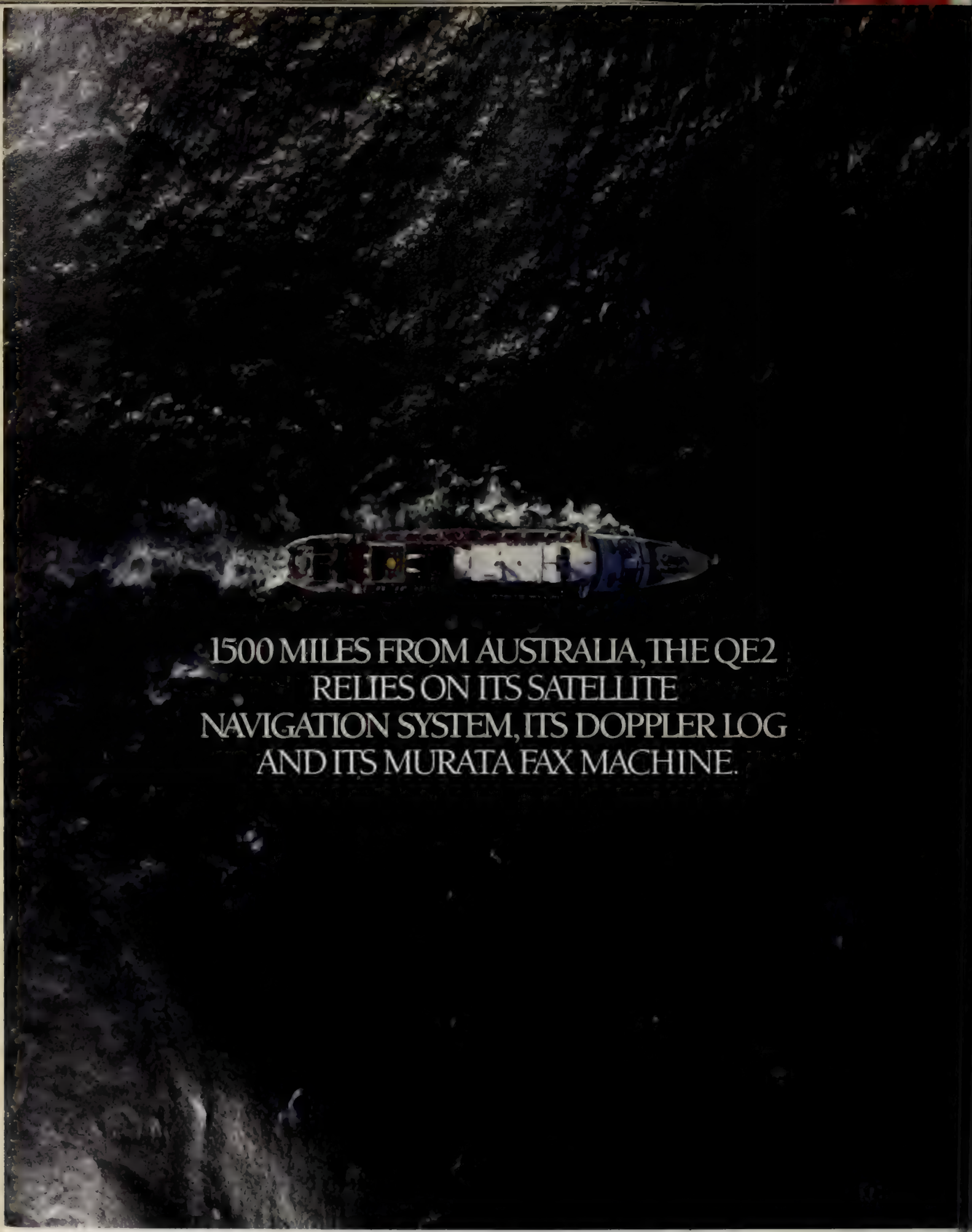

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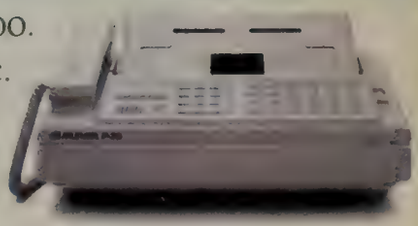


Why do shares of closed-end funds sell for far less than their asset value? Why is one particular closed-end one of the great unheralded buys on Wall Street?

The unload funds

By William Baldwin

NOT TOO LONG AGO investors could ignore closed-end funds. They were few in number and no great bargains, either. An explosion in the volume of new closed-end offerings in the past two years has greatly changed the picture. At the same time, takeover artists have made or threatened raids on some of the closed-ends that have been around long enough to sink to discounts. Investors are paying attention now.

A closed-end fund is an investment company that issues a fixed number of shares. After the underwriting, the company's shares trade in the second-hand market like shares of GM or IBM. Depending on supply and demand, the share price could be more or less than its intrinsic worth. For most stock funds more than a few months old, it's less. Therein lies a potential bargain.

Among mutual funds there are load funds and no-load funds. And then there are what you might call unload funds—closed-ends trading at a discount. Load funds cost you a commission: You might pay $1.03 or even $1.09 to get a dollar of assets. At an unload fund, on the other hand, you might be able to buy a dollar of assets for 80 or 90 cents, if the fellow who owns the shares wants badly enough to unload them.

The discount is the first thing to look at in hunting for closed-end bargains. The next is why existing shareholders might be trying to unload. (Lousy performance, for example, or exorbitant fees.) If there is no sensible reason for the discount, there is a fair chance a raider will come along someday and make your 80-cent dollars into cash dollars by open-ending or liquidating the fund.

But even if no takeover types appear, there is special value in some closed-ends. You may want to buy and hold, which is a particularly su able strategy for the four dual fu listed below, since dual funds h fixed termination dates that act a sort of guaranteed takeover. That you know that the discount will ev tually disappear and you will rece the full intrinsic value of the asset

And this brings us to the sec point of this story, which is to that John Neff's Gemini II dual fun a buy. It is a way to get a super managed portfolio with a high yi and a low expense ratio, without p ing a load. Indeed, there is an unl Existing shareholders will pay 6.5% to take Gemini off their han

Neff, 56, is one of the best manag the fund business has ever seen. In 24 years running the open-end V guard Windsor Fund, it has appea on the FORBES honor roll six tim Neff also runs the open-end Vangu High Yield Stock Fund, one of only funds to sport a yield over 7% ar market-beating return over the p five years. Between 1967 and 1 Neff's Gemini I delivered a 15% c pound annual return (versus the n ket's 8%), an extraordinary per mance to stretch over so long a per With both Windsor and High Y turning away new customers, Gem II is the only way for fund buyer get Neff.

Before considering a c fund, take a minute to derstand its peculiar c talization. Duals have classes of stock. The come shares bear the er annual expense of runn the portfolio and collec the dividend and inte income that results. capital shares, equal number to the inc shares, get all the appre tion. At the fixed term tion date (January 199 Gemini), the income h ers get back their sta net asset value of $ The capital shares whatever is left.

How does one calcu performance for a fund? Funds report sep asset values for the classes, with redemp value plus accrued inc assigned to income ho and the rest to capital h ers. By this calcula Gemini II Capital was

Closed-end discounts

These closed-end funds appear in the main fund tables with performance data. Below they are shown with prices and asset values as of June 30.

Fund	Share price	Net asset value	% premium or discount
Stock funds			
Adams Express	$15.88	$17.73	–10.5%
American Capital Income Trust	9.88	9.30	6.2
Baker, Fentress & Co	42.75	50.56	–15.4
Blue Chip Value Fund	6.13	7.39	–17.1
Central Securities	10.13	12.37	–18.1
Claremont Capital	50.38	51.79	–2.7
Counsellors Tandem Securities	6.00	8.07	–25.7
Cypress Fund	7.50	10.04	–25.3
Dover Regional Financial Shares	7.13	9.05	–21.3
Engex	9.00	12.72	–29.2
First Financial Fund	7.25	8.85	–18.1
Franklin Holding Corp	10.00	15.48	–35.4
Gabelli Equity Trust	10.13	11.27	–10.2
General American Investors	15.88	19.19	–17.3
Global Growth & Income–Capital* Global Growth & Income–Income*	17.50	18.18	–3.7

Templeton Growth Fund's Record

Illustration of an assumed investment of $10,000
with income dividends reinvested and capital gains distributions accepted in shares

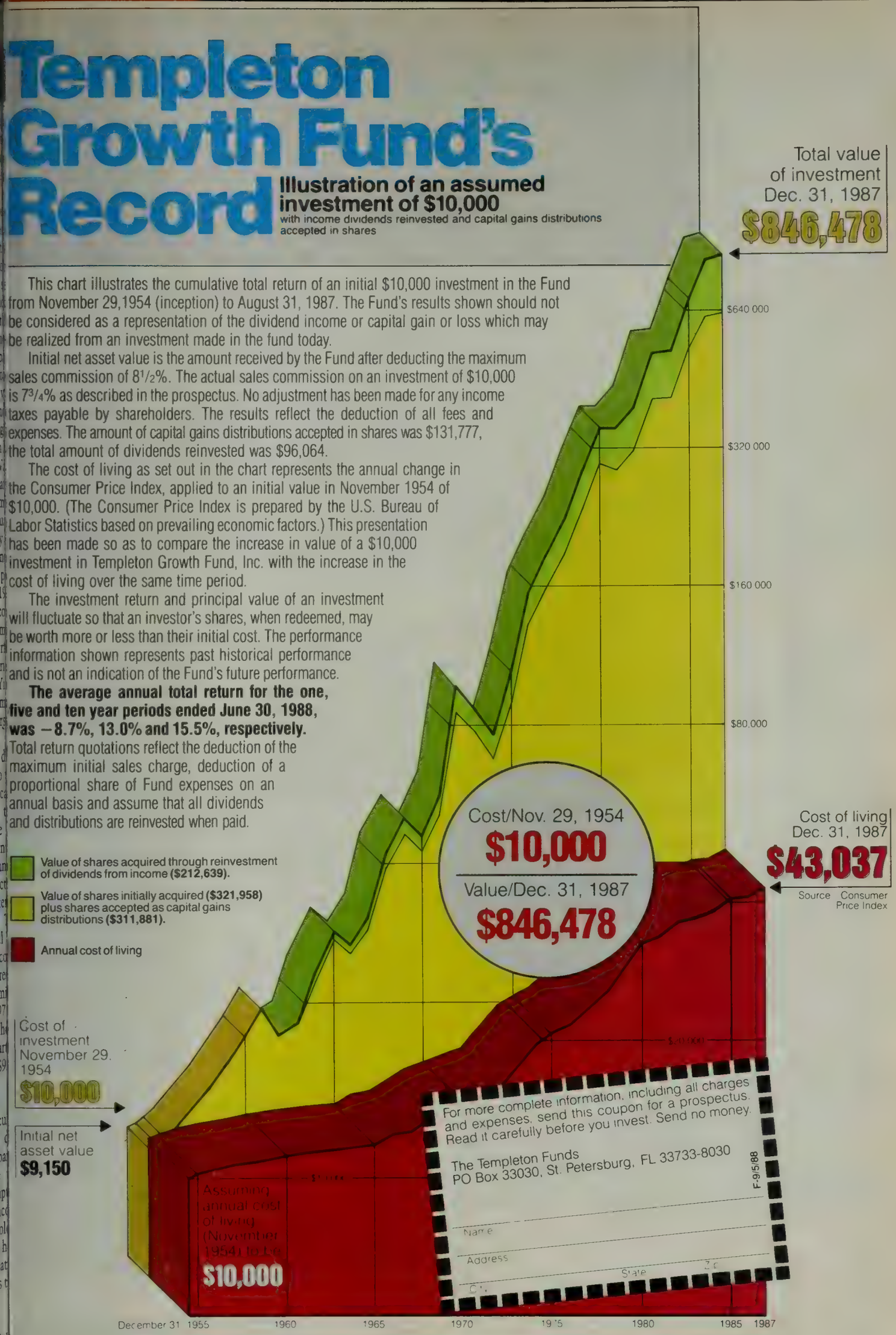
This chart illustrates the cumulative total return of an initial $10,000 investment in the Fund from November 29,1954 (inception) to August 31, 1987. The Fund's results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the fund today.

Initial net asset value is the amount received by the Fund after deducting the maximum sales commission of 8½%. The actual sales commission on an investment of $10,000 is 7¾% as described in the prospectus. No adjustment has been made for any income taxes payable by shareholders. The results reflect the deduction of all fees and expenses. The amount of capital gains distributions accepted in shares was $131,777, the total amount of dividends reinvested was $96,064.

The cost of living as set out in the chart represents the annual change in the Consumer Price Index, applied to an initial value in November 1954 of $10,000. (The Consumer Price Index is prepared by the U.S. Bureau of Labor Statistics based on prevailing economic factors.) This presentation has been made so as to compare the increase in value of a $10,000 investment in Templeton Growth Fund, Inc. with the increase in the cost of living over the same time period.

The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their initial cost. The performance information shown represents past historical performance and is not an indication of the Fund's future performance.

The average annual total return for the one, five and ten year periods ended June 30, 1988, was −8.7%, 13.0% and 15.5%, respectively. Total return quotations reflect the deduction of the maximum initial sales charge, deduction of a proportional share of Fund expenses on an annual basis and assume that all dividends and distributions are reinvested when paid.



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ing at a tempting 29% discount as of Aug. 5, while Gemini II Income was at a 34% premium. Those are the numbers you'll see in newspapers.

FORBES, however, doesn't report these numbers; we add the capital and income shares together and treat them as a unit. This is controversial. Any number of investment professionals, including John Neff, take the commonly reported discounts at face value. The only person we could find sympathetic to consolidating the numbers is John Bogle, chairman of Vanguard Group, which acts as administrator for Gemini. That way, he says, "you're looking at how the portfolio is managed rather than how the benefits are divided."

With due deference to someone of Neff's distinction, we submit that separately calculated discounts are meaningless. The capital shareholders don't own outright the property that is assigned to them in this calculation. They own only a remainderman's interest. Neither is it safe to figure the yield on the income shares separately. Since the 34% premium is sure to vanish by 1997, the current yield may be a poor indicator of the true yield to maturity.

Okay, you may be saying, the capital shares aren't at a 29% discount. What, then, is their true discount? Unfortunately, there is no way to calculate it without knowing in advance what Neff is going to do with the portfolio. If he leans to bonds and high-yield stocks, the capital shares become worth less and the income shares more. A shift to low-yield growth stocks would do the reverse.

Here's one plausible outcome. Neff produces an after-expenses return of 13% on the portfolio. Dividends grow at a steady 7.5% a year, ending at about $2.50. That would leave the yield on the overall portfolio the same as it is now. What is this future performance worth today? Let's say Wall Street discounts the ending value of the higher-risk capital shares at just over 14% and the cash flow of the safer income shares at just over 11%.

Using those assumptions, calculate the relationship between Big Board share prices for Gemini II and true net asset values. Surprise: The income and the capital shares are trading at an identical 6.5% discount to their respective true values.

The point of the foregoing is not to predict that Neff will deliver precisely these returns, which would in fact be very mediocre by Neff's standards. The point is simply that the market, in all likelihood, is not behaving irrationally in its seeming favoritism for the income shares.

Which, then, is the better buy, Gemini II Capital or Gemini II Income? John Bogle doesn't play favorites. He says, "What is unequivocally true is that if you buy both classes you are buying Neff's portfolio at a 6.5% discount." Considering Neff's talents, that is quite a bargain. ■

Fund	Share price	Net asset value	% premium or discount
Stock funds			
Growth Stock Outlook Trust	$9.13	$9.77	–6.6%
Hampton Utils–Capital Shares	8.38	9.84	–14.9
H&Q Healthcare Investors	6.63	8.13	–18.5
Italy Fund	7.50	8.74	–14.2
Lehman Corp	12.63	14.61	–13.6
Liberty All-Star Equity Fund	7.00	8.43	–17.0
Morgan Grenfell SmallCap Fund	8.25	9.57	–13.8
Niagara Share Corp	14.00	16.38	–14.5
Nicholas Applegate Growth Equity	7.50	9.02	–16.9
Petroleum & Resources Corp	24.50	26.44	–7.3
Pilgrim Regional Bankshares	8.00	9.70	–17.5
Quest for Value Dual–Capital* Quest for Value Dual–Income*	18.13	22.38	–19.0
Regional Fincl Shares Investment	6.50	7.83	–17.0
Royce Value Trust	8.63	9.56	–9.8
Scandinavia Fund	6.75	8.37	–19.4
Schaefer Value Trust	7.25	8.83	–17.9
Source Capital	39.00	38.51	1.3
Spectra Fund	12.00	13.73	–12.6
Tri-Continental Corp	22.38	25.30	–11.6
Vanguard Gemini II Capital* Vanguard Gemini II Income*	25.75	26.71	–3.6
World Wide Value Fund	15.38	19.34	–20.5
Zweig Fund	11.00	10.63	3.5
Z-Seven Fund	14.75	14.94	–1.3

*Capital and income shares treated as a unit.

Fund	Share price	Net asset value	% premium or discount
Balanced funds			
American Capital Convertible Sec	$22.25	$24.21	–8.1%
Bancroft Convertible Fund	20.63	23.57	–12.5
Castle Convertible Fund	22.00	22.53	–2.4
Convertible Holdings–Capital* Convertible Holdings–Income*	16.88	19.76	–14.6
Duff & Phelps Selected Utilities	8.63	7.91	9.0
Ellsworth Conv Growth & Income	7.75	8.87	–12.6
First Australia Fund	8.75	10.26	–14.7
Lincoln Natl Convertible Securities	11.88	14.11	–15.8
TCW Convertible Securities Fund	8.00	8.47	–5.5
Foreign funds			
ASA Limited	42.75	51.99	–17.8
Asia Pacific Fund	7.00	8.71	–19.6
Brazil Fund	9.13	11.70	–22.0
Clemente Global Growth Fund	6.50	8.65	–24.9
First Iberian Fund	9.75	9.12	6.9
France Fund	9.50	10.38	–8.5
Germany Fund	7.13	7.31	–2.5
Global Government Plus	9.63	9.07	6.1
Helvetia Fund	10.13	10.95	–7.5
Korea Fund	70.75	41.91	68.8
Malaysia Fund	8.63	9.57	–9.9
Mexico Fund	5.38	7.35	–26.9
Scudder New Asia Fund	10.38	12.41	–16.4
Taiwan Fund	37.50	27.36	37.1
Templeton Emerging Markets	8.13	9.23	–12.0
Thai Fund	15.38	11.77	30.6

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Lots of British investment trusts trade at a discount, but here's one that, under the circumstances, is way too cheap.

London on sale

By Peter Fuhrman

FUNNY THING, that otherwise sane people pay a sales load to get into a foreign fund, then pass up closed-end foreign funds trading at a discount to their net assets. Case in point is NYSE-listed United Kingdom Fund. Not only is it selling at a 19% discount, but its management company, London-based Mercury Asset Management Ltd., may open-end the fund in as little as 18 months.

"We're selling £10 notes for £8," gripes Leonard Licht, a deputy chairman of Mercury Asset Management Ltd. and manager of the fund. "The U.K. has some good stocks. We haven't gotten this message across."

The idea behind the United Kingdom Fund was to sell Americans a piece of the Thatcher revolution. So far there have been few willing conscripts. Soon after its flotation in August 1987, the $45 million (recent net assets) fund went to a discount. The gap has widened, despite the fund's 6.3% total return during the first half of 1988. Indeed, some of Licht's best customers are Mercury fund managers attracted by the discount.

The United Kingdom Fund is not unique. All the country funds shown on page 160, except those investing in Asian markets where the sale of direct equity to foreigners is limited, sell at a discount. What's unusual about the United Kingdom Fund is a bylaw requiring the managers to submit open-ending to a shareholder vote in March 1989 and once a year thereafter, if the discount remains at 10% or greater. Open ending, then, is far from certain, but the arrangement makes the indefinite continuance of a deep 20% discount highly unlikely.

To judge from the money business, there's nothing wrong with the British economy. Mercury, the money management arm of British investment banker S.G. Warburg & Co., has $40 billion under management. Last year Warburg sold off a 25% stake in Mercury in a public offering that raised $70 million. Pretax profits at Mercury rose 77% in fiscal 1988, to $66 million.

"Most people don't yet fully appreciate the change in British management," says the 42-year-old Licht, who joined Mercury as a filing clerk at age 17. "British industry is significantly more profitable than before Mrs. Thatcher came to power."

The United Kingdom Fund invests in only 23 British companies, none household names in the U.S. One reason for this low-profile approach is that Licht wanted to avoid companies (like British Petroleum) that trade as ADRs in the U.S. But, more important, the lesser-known companies offer the greatest prospects for what Licht calls "pleasant surprises."

"It is easier to outperform the market in Britain than in the U.S.," Licht explains. "We still don't have the same quality of corporate reporting here. Imagine the joy of finding an oil company with undisclosed reserves or a property company with real estate that has not been revalued."

Among Licht's holdings are 125,000 shares ($1.35 million worth) of Amersham, a health care company that has risen 30% since an announcement by the government that it would sell its stake raised hopes for a takeover. Another holding is 105,000 shares, $[illegible] million worth, of Great Universal Stores, a sleepy retailer sitting on nearly $1 billion in cash, urban real estate, Britain's largest mail order business and one of the world's classiest names in retailing, Burberrys. Great Universal is a family-run concern with an aging chairman. By Licht's reckoning, almost half the companies in the fund are prospects for takeover or restructuring.

Licht also expects big things from Trafford Park Estates, a property company based in Manchester. He figures that public dissatisfaction with Britain's socialized health system will help Trafford. "As the next election approaches, Mrs. Thatcher will be opening new hospitals every week. They'll have to build those hospitals somewhere, and Trafford owns lots of land," he says. "Cynicism is also part of my investment philosophy."

In its first year, the fund has outperformed the Financial Times Actuaries All-Shares Index by 17% in dollar terms. Licht is clearly a good stock picker. Why then are shares of the fund submerged 20% below their issue price? Perhaps because American investors tend to sell shares whenever the pound falls against the dollar. Since the start of the year, the pound has weakened by 10% against the dollar, and the London market has sputtered. Yet the net asset value of the fund has actually risen, in part because Licht, mindful of the fact that his shareholders are dollar investors, has offset much of the decline in the pound with currency positions.

The negative with this fund is a fairly stiff expense ratio of 1.6% of assets annually. But that seems amply offset by the hefty discount. ■

ome of the hottest-performing U.S. funds west in Japan. But that doesn't necessar-'y mean you should buy now.

Leave it to the locals

By Richard Phalon

COMPARED WITH other U.S. funds investing in Japanese stocks, Merrill Lynch Pacific is extraordinary performer, up 33% a ar over the past five years, against ss than 15% for the U.S. stock mar-t. But even the Merrill Lynch fund dn't keep up with the Japanese ock market. The Nikkei dex, if converted into llars, has averaged a % annual gain since ne 1983. That reflects a ar tripling of Japanese ocks in yen terms, com-unded by a near dou-ing of the value of the n against the dollar. udder's Japan Fund also oks good—with a 31% nual return—until you mpare it with the dollar-justed Nikkei.

Lagging the average or t, these funds have early been a good place r investors to be during e past few years. Are ey the place to be for the xt few years?

Although he runs one of e hotter U.S. funds in-sting in Japan—DFA Ja-n Small Company Fund, index fund that is de-gned to mimic the per-rmance of smaller-capi-lization Japanese stocks, up 66.8% in the past 12 onths—Rex Sinquefield, airman of the Santa onica, Calif.-based Dimensional Fund Advisors, is the first to concede that the Japanese market is unlikely to continue on its torrid upward pace.

Sinquefield's point is well taken. In the last few years, anyone sitting with a broad cross section of stocks could have made money in Tokyo. A generally rising market and rising currency is the best of all possible worlds. But remember that the yen and the Nikkei could head the other way, perhaps together.

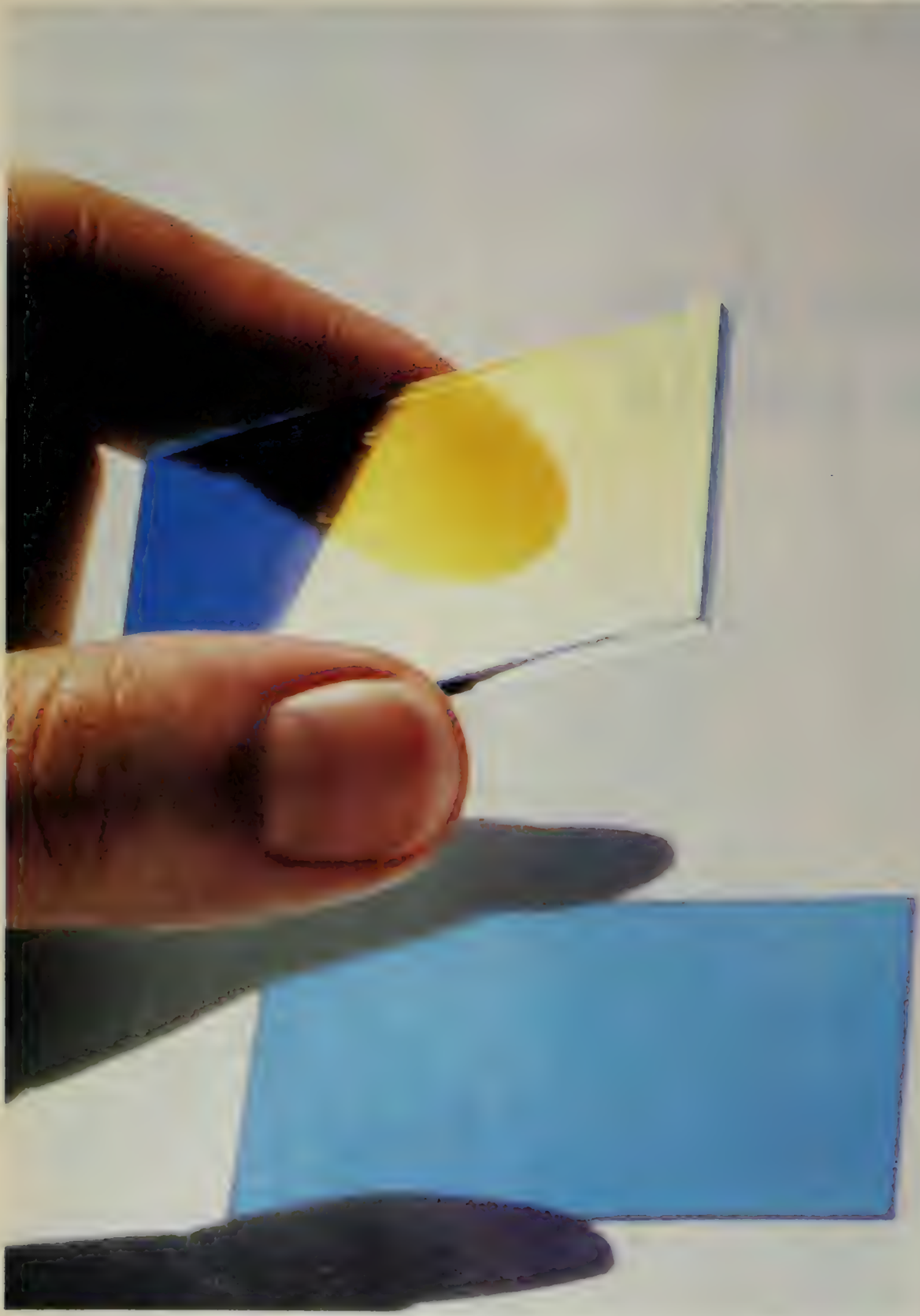
The Tokyo market is a wild place and an insider's market—as the recent insider trading scandal involving aides to some of Japan's top politicians indicates. However, portfolio manager Laura Luckyn-Malone of Japan Fund thinks the Japanese market can be beaten; she flourishes in its racetrack environment. Her strategy is to spot major economic trends and get aboard the best-looking stocks in the industries likely to benefit most.

At the moment that translates into buys on major retailers like Ito-Yokado Co., the affiliated 7-Eleven Japan Co., and Nichii Co., an Osaka supermarket chain. As companies that control their own distribution systems, contends Luckyn-Malone, they stand to profit most from the gathering storm of what appears to be a shakeout in Japan's traditionally fragmented retail market.

Other American managers pursue a "bottom up" strategy. Merrill Lynch's Stephen Silverman, for one, thinks of himself as a basic value stock picker in the Graham Dodd mold. Thus, he has tucked more than a third of the Pacific Fund's assets into four medium-size property and casualty insurance companies (Nichido Fire & Marine, Fuji Fire & Marine, Dai-Tokyo Fire & Marine and Koa Fire & Marine), which hold stock portfolios carried on the books at a fraction of current market values. Silverman's fund is also 15% invested in other Pacific Rim markets, Australia, Hong Kong and Singapore, which should give him some cushion if Tokyo peaks.

The level of redemptions at the Japan Fund and Merrill Lynch Pacific, though, suggests that investors are dubious that Tokyo can sustain the runup it has clocked since Black Monday. They may be right or they may be wrong, but there are clearly times when runaway markets should be left to the locals—and right now looks like one of those times. ■

We've brought a colorfu



Interference filters from Schott are composed of thin layers of metal and metallic compounds applied to a glass plate. Each layer is thinner than 4/100,000 of an inch. The structure of the layers determines which parts of the optical spectrum will be reflected or transmitted

Ever wonder what's behind that gorgeous glint of variegated color as butterflies flutter here and there? There are hundreds of thousands of species and almost no two are alike.

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ecret to the surface.

Take a closer look at the iridescent scales on the wings of a butterfly. You'll discover that they are made up of superimposed layers. The vibrant play of colors results from the phenomenon known as interference.

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If you're convinced the market is headed down, buy a low-risk fund. If you're sure it's going up, buy a high-risk fund. But if you aren't sure, find a fund that does respectably well in both environments.

How to pick a fund

By Laura R. Walbert

TO: INVESTORS WHO recently redeemed shares of SteinRoe Equity-Capital Opportunities Fund. From: the FORBES statistics department. Message: Your timing is pretty terrible.

In our 1987 fund survey, this aggressive growth fund was riding the crest of the 1982-87 bull market. New shareholders were pouring in: Assets of $320 million on June 30, 1987 were up 46% from a year earlier. Those newcomers were either unaware or unconcerned that this fund, while rating an A+ for bull markets in the FORBES survey, got only a D in down markets. Either they didn't see the rating, or they thought that bull markets go on forever.

And now, postcrash, the shareholders are leaving. Capital Opportunities' most recent asset figure, $236 million, is off 26% from a year ago. Many who flocked in at the highs last year flocked out at much lower prices this year. Buy high, sell low. That's the mistake that too many investors make. It's why they rarely make money.

We refer to the investor who chases after spectacular bull markets. Many of the aggressive funds that rise so rapidly go down just as quickly. Combine that with a panicky reaction to setbacks common among small investors, and you have a prescription for big losses.

That's why we preach consistency of performance in our rating system.

We grade funds separately for up markets and down markets. There are plenty of funds that shine in rising markets and another large group of conservative funds that look better in falling markets. But the trick is to find that select group of funds that finish in the top half in both.

That elite group of fair- and foul-weather performers, signified by a score of B or better in both up and down markets, composes the FORBES honor roll, which appears on page 168. In addition, the funds must have a good overall return through three bull market and three bear market cycles. Only 19 funds were able to make the grade this year.

Why do we place so much emphasis on consistency? Because you don't know when you will need your money. The business opportunity of a lifetime or the summer dream house could come along during a bear market. You wouldn't want your assets in a highly volatile fund at the bottom of its cycle.

We give separate up and down grades to four types of funds, with a fund being graded on the curve against others of its type: stock funds, balanced funds (which mix stocks and bonds), foreign stock funds and bond funds. For each group, performance is measured in three up and three down market periods. For stock and balanced funds, that period runs from Feb. 28, 1978 to June 30, 1988. Foreign funds are graded from Nov. 30, 1977 onward, and fixed-income funds from Mar. 31, 1980 onward. An exceptionally good or bad run in any of the six market periods is discounted to reduce the effect of one lucky (or unlucky) streak on the fund's rating.

For the three bull markets, we give the best 5% of each group an A+, the next 15% an A, the next 25% a B, the next 25% a C, the next 25% a D, and the remainder an F. Down markets work the same way. As with stocks, so too with bonds: It is very hard to get a good rating in both bull and bear markets. A bond fund manager can look brilliant in a bull market simply by stretching out the maturities in his portfolio. He will get an A in down markets, by contrast, if he keeps to a defensive, short term posture. Unless he can foretell interest rate swings or pick superior bonds, he won't get good marks in both kinds of markets.

1988 Fund Ratings

Municipal bond funds, which with a few exceptions haven't been around long enough to show three cycles of performance, are given a single grade according to a formula described on page 230.

One important element of this system is rating a fund against its peers. This year, for the first time, we had enough foreign funds to give them a separate rating pool. The shift in venue puts these specialized funds in a new light. Merrill Lynch Pacific, which averaged a stellar 24.6% annual return over the past 10⅔ years, and Japan Fund at 20.9%, are near the top of the class among all equity funds. Yet they look ordinary versus the strong 22% average return for our foreign market index, the Morgan Stanley Capital International Index.

After consistency, look for efficiency. By that we mean low transaction costs. Too many funds offer just the opposite. Investors may have to pay an 8.5% sales charge to get into the fund or a 5% back-end load to get their money out. Existing shareholders may be burdened with the cost of enticing new shareholders through so-called 12b-1 distribution plans that can cost as much as 1.25% a year. Or the fund may pass on tremendous overhead costs.

An efficient fund is a low-cost producer. Investors don't pay a load to get into the fund or a fee to get out. The annual expenses taken out of shareholders' returns are low. And the cost of distributing the fund is borne by its promoter, or passed to shareholders in a small fee. An efficient fund takes less than 1% of shareholders' money each year to cover costs. An inefficient fund takes well over 1%.

Why worry about a couple of percentage points? Because transaction costs are one aspect of investing that you can control. No one knows if a star manager will keep his hot hand, but high overhead costs are a guaranteed drag on performance. You may not notice it the first year, and a bull market can mask the cost of inefficiency for several years. But after 20 years, an extra 1.5% a year in overhead knocks 26% off the value of a portfolio. That's 26% less to retire on.

For that reason, FORBES has long shown annual expense ratios alongside performance data. To be sure, the annual expenses have already come out by the time the fund calculates its dividends, one of the factors used in calculating performance. But the bottom-line performance does not tell you all you need to know about a fund. If a fund runs up costs but temporarily makes up the difference in its portfolio, the performance will look acceptable. But there may be a little time bomb in this sort of fund. The seemingly superior portfolio may be nothing but a mediocre, high-risk portfolio enjoying a bull market. (For more on how risk distorts performance, read the article on page 134.) When the market turns, the fund will be dragged down by a double whammy of high risk and high costs. Note: Costs that are not paid annually by all shareholders, such as front-end sales loads or exit loads, are not figured into the performance we show.

Closed-end funds are funds that sell a finite number of shares, just like IBM or General Motors. For that reason, closed-end funds can trade at a premium or a discount to their underlying value. Our rating of closed-end funds, however, is intended to measure the manager's prowess, not the market's moods. So the funds are rated on the performance of their net asset value, not their selling price. A further discussion of closed-end discounts apears on page 158.

Our raw data on open-end funds come from Rockville, Md.-based CDA Investment Technologies. We assume dividends are reinvested at month-end. ■

The most efficient funds

Low costs are only one criterion in picking an investment. After all, saving a point on expenses won't make up for lousy performance. But costs are potentially a decisive factor where evidence on portfolio ability is ambiguous. Here, we list our selections from the lowest-overhead funds in each of several categories. The winners have no load or exit fee, have assets over $100 million, keep turnover below 100% a year and don't bill their shareholders for 12b-1 distribution costs. Quest for Value got a place in spite of a moderately high expense ratio because its large discount, certain to vanish by 1997, serves as an antidote. (For more on dual funds like this, see story, p. 158.) Vanguard Index–500 Portfolio is a cheap way to buy stocks but didn't make the list; there's a cheaper way to buy this portfolio in the futures market (see story, p. 140). While we show only two of Vanguard's bond funds, there are several other portfolios just as cheaply managed. However, we don't consider Vanguard's insured tax-free fund efficient because the municipal bond insurance costs money yet serves little purpose in a well-diversified fund.

Fund	Type	Annual turnover[1]	Annual expense per $100	Assets ($mil)
Royce Value Trust	stock[2]	66	$0.40	$111
Quest for Value	stock[3]	97	1.06	403
Lehman Corp	stock[2]	54	0.44	881
Vanguard Wellington Fund	balanced	27	0.43	1,494
ASA Limited	foreign	2	0.24	499
Vanguard Trustees Commingled–Intl	foreign	48	0.50	602
Vanguard Fixed Income–GNMA	taxable bond	22	0.35	1,885
Vanguard Muni Bond–Long-Term	tax-free bond	67	0.26	542
Vanguard MM Reserves–Prime	money market	NA	0.37	5,218
Vanguard Muni Bond–Money Market	tax-free money mkt	NA	0.26	2,139

[1]Lesser of portfolio sales or purchases divided by average assets. [2]Closed-end. [3]Closed-end dual fund. NA: Not applicable.

The honor roll

QUASAR ASSOCIATES, a hot little aggressive-growth fund from the Alliance family, would have been a terrific place to put your money a decade ago. In long-term performance, it places fourth of 265 domestic stock funds. But you won't find it on the FORBES honor roll. Its absence says a lot about what the honor roll is and isn't.

The honor roll isn't our prediction of which funds will have the best returns for the next decade. We can't begin to tell you that because we don't know what the next decade will bring. If we knew the stock market would sizzle in the 1990s, we might put Quasar on. All we or anyone can say for certain is that the market will fluctuate. Therefore, the FORBES mutual fund ratings take into account not only a fund's prowess in bull markets but its defensive strengths in bear markets. Quasar just doesn't do well in bear markets.

Then what is the honor roll? A list of funds that have shown the ability to perform well in both bull and bear markets. To get on, a fund has to be not only good but consistent. It must get at least a B in both bull and bear markets. Although 45% of all funds are awarded honor grades for up markets and 45% for down markets, scarcely one in ten gets honor grades in both kinds of markets. From that 10% comes our honor roll.

Quasar, whose manager has a taste for steeply leveraged companies like Tele-Communications and Itel, is a fair-weather fund. For up markets, it gets an A+. But when the market sours, it rates a D. Buy Quasar if you feel quite certain that the market will be mostly bullish during the time you will be invested. But how many people can be confident about that? What if the next decade does not produce a market with the overall strength of the last decade's? What if you need

Fund/distributor	Performance UP	Performance DOWN	Lead manager (consecutive years as manager)	Net assets 6/30/88 ($mil)	Maximum load	Annual expenses per $100 assets
Acorn Fund/Acorn Fund	B	B	Ralph Wanger (18)	$530	none	$0.82
Amcap Fund/American Funds Distributors	B	B	multiple managers	1,726	5.75%	*0.63*
American Capital Pace Fund/American Capital Mktng	B	A	John Roche (3)	2,488	8.50	0.60
Claremont Capital/closed end	B	A	Erik Bergstrom (12)	59	NA[6]	1.01
Dodge & Cox Stock Fund/Dodge & Cox	A	B	multiple managers	75	none	0.65
Fidelity Destiny Portfolio I/Fidelity Distributors Corp	A	B	George Vanderheiden (8)	1,440	NA[7]	0.50
Fidelity Magellan Fund/Fidelity Distributors Corp	A+	A	Peter Lynch (11)	9,257	3.00	1.14
Growth Fund of America/American Funds Distributors	B	B	multiple managers	1,129	5.75	*0.66*
Guardian Park Ave Fund/Guardian Investor Svcs Corp	B	B	Charles Albers (16)	185	4.50	0.68
IDS New Dimensions Fund/IDS Financial Services	A	B	Arch Spencer (1)	681	5.00	0.79
Lehman Capital Fund/Shearson Lehman Hutton	A	B	Ronald Wiener (2)	86	5.00	1.17
New England Growth Fund/New England Securities	A	B	Kenneth Heebner (12)	487	6.50	*1.28*
New York Venture Fund/Venture Advisers	A	B	Shelby Davis (19)	166	8.50	1.01
Nicholas Fund/Nicholas Co	B	A	Albert Nicholas (19)	1,148	none	0.86
Putnam Vista Basic Value/Putnam Financial Services	A	B	Ronald Clark (2)	254	8.50	1.05
Shearson Lehman Appreciation/Shearson Lehman	A	B	Harold Williamson Jr (7)	453	5.00	0.93
Sigma Capital Shares/Sigma Investor Services	B	B	Richard King (11)	92	6.00	*1.12*
United Vanguard Fund/Waddell & Reed	B	A	Charles Hooper Jr (1)	683	8.50	0.93
Value Line Leveraged Growth Inv/Value Line Securities	B	B	Mark Tavel (14)	288	none	0.95

[1]Most funds have lower minimum requirements for IRAs. [2]Average of price-earnings ratios for stocks in portfolio as of 3/31/88, weighted by size of holding. Source: CDA Investment Technologies. [3]Lesser of security sales or purchases divided by average net assets. [4]From 2/28/78 through 6/30/88, before deducting loads and taxes. [5]Value on 6/30/88 of $10,000 invested 2/28/78, after load and taxes, for hypothetical upper income investor. Assumptions: Investor has $100,000 of gross income in constant 1984 dollars, deductions equal to 20% of income—15% after 1986—and four exemptions. Loads applied at 6/30/88 rates.

your money in a hurry? If you are forced to sell at the bottom, you don't want to be in a fund like Quasar.

But being in the upper 10% in consistency does not yet get you on the FORBES honor roll. Candidates have to pass two other tests. One is that they be open to new customers. For the third year in a row, the Loomis-Sayles Capital Development Fund was disqualified for this reason.

The other requirement is turning a hypothetical $10,000 investment made in 1978 into at least $42,000, after taxes and loads. This hypothetical example reflects two aspects of performance that aren't captured elsewhere in our ratings. The grading process, which aims to measure portfolio management skill, doesn't dock funds for sales loads. The only place where we do that is in the column below labeled "Hypothetical investment results," which are charged loads at current rates. The examples also adjust returns for individual taxes.

The October crash left a sharp imprint. Seven funds tumbled off last year's honor roll, as the crash shifted our evaluation period forward half a cycle *(see chart, p. 172)* and pushed several former winners into C territory in bear markets. The newcomers are Dodge & Cox, Guardian Park Avenue, IDS New Dimensions, Lehman Capital, New York Venture, Putnam Vista Basic Value and Sigma Capital.

As it has so many times in the past, Fidelity Magellan leads the honor roll in hypothetical after-tax results. It turned a $10,000 investment into $137,472, versus $78,801 for its closest competitor, Claremont Capital. Fidelity's Peter Lynch didn't shine last October, but his huge lead going into the crash gave him a performance cushion. Claremont, by contrast, was more conservative. "During the crash, the fund was down, but not like the market. We built up a cash position and we didn't sell out when our stocks hit bottom," says Erik Bergstrom, who has been managing Claremont Capital from Palo Alto, Calif. for 12 years. Kenneth Heebner, who has appeared on the honor roll four times with New England Growth and once with Loomis-Sayles Capital Development, is keeping a high 50% of New England Growth's assets in cash, up from 33% on June 30. "We think the current business cycle is coming to an end. Interest rates are trending up," he says.

A weakness in any rating system is that it necessarily must focus on the fund rather than on the Kenneth Heebners or Erik Bergstroms who run it. But investors should not ignore the matter of personnel. That's why we list the lead portfolio manager for each fund, along with the number of years he's been in that position. Some fund sponsors, fearful that the departure of a star manager might cause customers to desert, run funds with anonymous committees. Some of these committees deliver excellent results, but it's hard to know if the talent responsible for the past record is still around. Another common situation is typified by our experience with Putnam Vista Basic Value. It was like pulling teeth to find out how long Ronald Clark has been manager. Not surprising, since he's fairly new to the top spot. Whether Clark can do as well as his predecessors remains to be seen. For now, investors would do well to wait and see.—**Ronit Addis**

Minimum initial investment[1]	Weighted average P/E[2]	% of assets in cash	Portfolio turnover[3]	Average annual total return[4]	Hypothetical investment results[5]	Fund (consecutive years on honor roll)
$4,000	25	7.0%	52%	19.8%	$50,417	**Acorn Fund** (5)
1,000	21	21.0	12	20.7	53,014	**Amcap Fund** (9)
500	21	4.0	44	22.4	57,988	**American Capital Pace Fund** (6)
NA	NA	5.0	25	24.0	78,801	**Claremont Capital** (5)
1,000	19	3.0	12	19.5	48,200	**Dodge & Cox Stock Fund** (1)
NA	18	3.6	92	22.3	48,722	**Fidelity Destiny Portfolio I** (6)
1,000	17	4.5	101	32.4	137,472	**Fidelity Magellan Fund** (7)
1,000	30	13.0	20	21.5	60,917	**Growth Fund of America** (5)
300	16	8.0	50	19.9	45,766	**Guardian Park Ave Fund** (1)
2,000	20	23.0	113	21.9	52,633	**IDS New Dimensions Fund** (1)
1,000	27	11.0	395	22.1	52,347	**Lehman Capital Fund** (1)
1,000	18	33.0	154	24.4	68,218	**New England Growth Fund** (4)
1,000	19	3.0	22	22.0	49,613	**New York Venture Fund** (1)
500	16	13.0	32	21.6	61,366	**Nicholas Fund** (7)
500	17	0.8	117	20.2	44,703	**Putnam Vista Basic Value** (1)
500	18	15.0	26	21.6	64,809	**Shearson Lehman Appreciation Fund** (3)
none	17	14.6	10	19.3	51,533	**Sigma Capital Shares** (1)
500	21	17.0	161	22.8	57,209	**United Vanguard Fund** (4)
1,000	17	2.4	148	18.5	43,241	**Value Line Leveraged Growth Inv** (3)

[6]Closed-end funds have no loads, but hypothetical results column assumes a 1% brokerage fee to buy shares. [7]Operates as a contractual plan, requiring monthly investment, with a decreasing load as investment grows. Hypothetical investment result assumes a single investment of $10,000 on 2/28/78, with a 10.77% simulated load that reflects both sales and account maintenance charges. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* NA: not available or not applicable.

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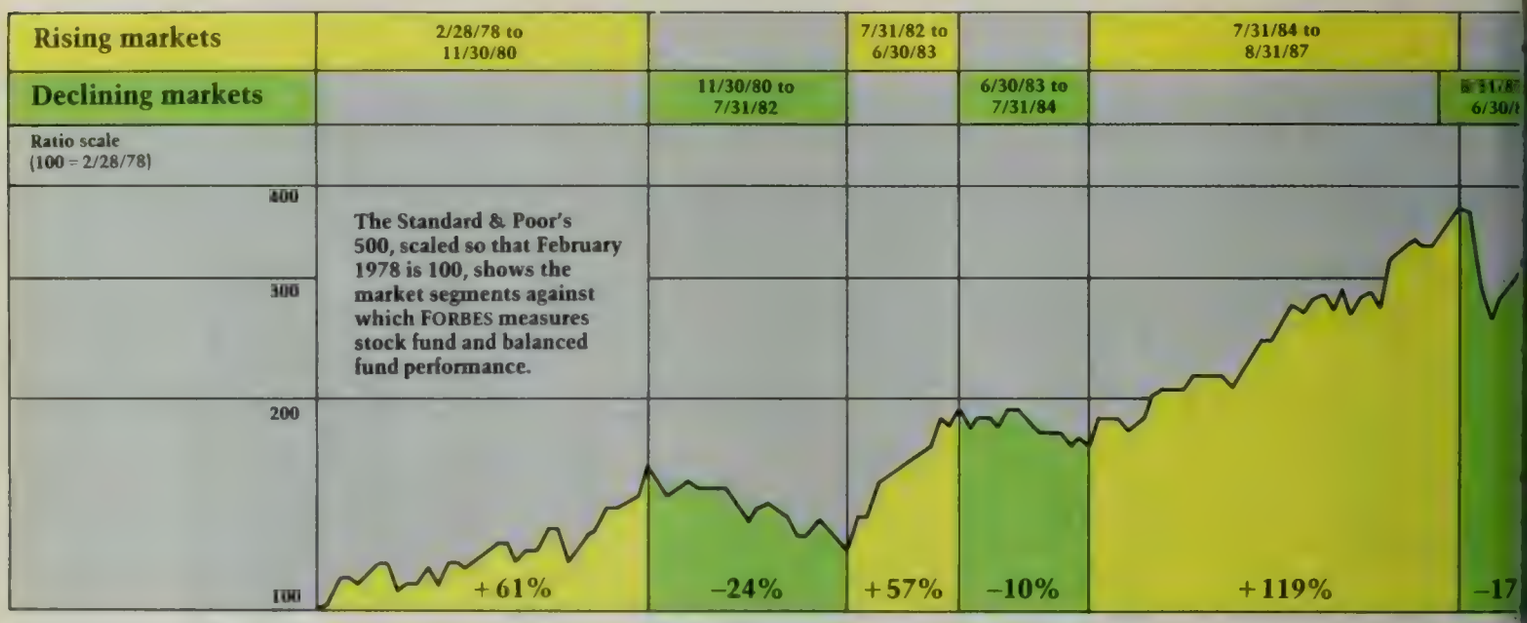
Stock funds

FORBES rates stock funds over a period of slightly more than ten years, comprising three market cycles shown below. A fund must have been in existence for at least two market cycles, that is, since July 30, 1982, to be rated. A • preceding a performance rating indicates a two-period rating. Foreign stock funds, a category that includes most gold funds, are rated separately against a different benchmark (see page 210).

For more information about a fund, call the distributor li after the fund name, using the table of distributors that be on page 250. Closed-end funds have no distributor; they bought and sold through a broker in the secondary mar like shares of industrial companies (see story, page 158.) average annual return is compounded; it and other per mance numbers are after expenses, but before sales load.



Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expen per $1
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
		AARP Growth–Capital Growth/Scudder	—*	–0.6%	0.7%	$94	–6%	none	$1.2
		AARP Growth–Growth & Income/Scudder	—*	–6.2	4.3	247	–23	none	1.0
B	D	ABT Growth & Income Trust/Palm Beach	15.7%	–0.2	3.5	115	–18	4.75%	1.2
		ABT Invest–Emerging Growth/Palm Beach	—*	–15.1	none	26	–46	4.75	1.5
		ABT Invest–Security Income/Palm Beach	—*	–17.4	2.4	10	–41	4.75	2.0
•D	A	ABT Utility Income Fund/Palm Beach	—*	5.5	6.6	118	–12	4.75	1.3
B	B	Acorn Fund/Acorn	19.8	2.0	1.4	530	1	none	0.8
		Adam Investors/Conway, Luongo	*	–5.9	10.2	6	–43	none	2.2
D	B	Adams Express/closed end	15.8	–6.6	3.2	476	–14	NA	0.5

A stock fund is considered for this list if it has at least $5 million in net assets and, if open end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. St[illegible] since 7/31/82. Long term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 [illegible] as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder paid 12b-1 plan exceeding 0.1% (hidden load) pending* [illegible] • Fund [illegible] maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new sha[illegible] expenses by fund sponsor. b Includes back-end load that reverts to fund. r Includes back-end load that reverts to distributor. NA [illegible]

Table of distributors, showing addresses and phone numbers, begins on page 250.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**16.9%**	**–6.9%**	**3.3%**				
		Forbes stock fund composite	**16.4%**	**–5.6%**	**2.7%**				**$1.49**
		Advantage Growth Fund/Advest	—*	–9.7%	1.5%	$27	–9%	4.00%r	*$2.29*
C	B	**Affiliated Fund/Lord Abbett**	17.7%	–5.3	5.1	3,442	–14	7.25	0.37
D	D	**Afuture Fund/Afuture**	11.1	–17.5	0.9	9	–32	none	1.60p
		Alger Fund–Growth/Alger	—*	–12.5	none	6	–3	5.00r	*3.00p*
		Alliance Counterpoint Fund/Alliance	—*	–5.7	2.1	45	–15	5.50	*1.76p*
D	B	**Alliance Dividend Shares/Alliance**	16.0	–3.9	4.0	343	–15	5.50	*1.02*
C	C	**Alliance Fund/Alliance**	15.4	0.0	2.0	821	–13	5.50	*0.76*
•A	•D	**Alliance Technology Fund/Alliance**	—*	–4.9	none	197	–2	5.50	*1.31p*
D	D	**AMA Growth–Classic Growth/AMA**	11.7	–9.8	2.2	39	–18	none	*1.65*
		AMA Growth–Growth plus Inc/AMA	—*	–7.7	3.1	14	–9	none	*1.60*
B	B	**Amcap Fund/American Funds**	20.7	–3.3	2.1	1,726	–9	5.75	*0.63*
C	A	**American Capital Comstock/American Cap**	20.1	–10.3	2.8	930	–20	8.50	0.57
A	D	**American Capital Enterprise/American Cap**	19.5	–11.2	2.2	542	–25	8.50	0.58
C	C	**American Capital Exchange Fund/‡**	14.7	–3.9	2.0	42	–21	none	0.70
		American Capital Income Trust/closed end	—*	—*	—*	136	—	NA	NA
		American Capital OTC Secs/American Cap	—*	–34.3	none	46	–51	8.50	1.28p
B	A	**American Capital Pace Fund/American Cap**	22.4	–11.8	3.8	2,488	–17	8.50	0.60
D	A	**American Capital Venture/American Cap**	17.9	–13.2	3.1	228	–32	8.50	0.82
D	B	**American Growth Fund/American Growth**	14.5	–9.5	2.4	66	–15	8.50	1.28
C	F	**American Investors Growth/Amer Investors**	6.5	–7.1	0.8	60	–17	none	*1.66*
D	A	**American Leaders Fund/Federated**	16.8	–2.1	3.3	160	–11	4.50	1.00p
D	A	**American Mutual Fund/American Funds**	18.8	1.3	4.6	2,616	–3	5.75	*0.47*
B	C	**American National Growth/Securities Mgmt**	17.0	–7.3	2.2	105	–11	8.50	1.20
D	A	**American National Income/Securities Mgmt**	15.4	–6.1	4.1	69	–16	8.50	1.00p
		American Pension–Growth/Amer Pension	—*	–3.2	0.3	29	32	none	*2.21p*
		American Telecom–Growth/Shearson	—*	–6.7	6.3	32	–26	5.00b	1.06
		American Telecom–Income/‡	—*	10.3	7.2	86	–6	none	0.97
A	C	**AMEV Capital Fund/AMEV**	20.5	–13.6	1.4	122	–16	8.50	1.07
•A	•C	**AMEV Fiduciary Fund/AMEV**	—*	–14.8	0.2	33	–8	4.50	*1.39*
A	C	**AMEV Growth Fund/AMEV**	23.0	–16.1	0.5	202	–21	8.50	0.99
D	C	**Amway Mutual Fund/Amway**	11.4	–8.0	1.6	36	–13	6.50	1.10
•D	A	**Analytic Optioned Equity Fund/Analytic Option**	—*	1.7	3.8	98	15	none	1.17
C	C	**Armstrong Associates/Armstrong**	15.6	–1.8	1.9	10	–15	none	1.70
		Associated Planners Stock Fund/Assoc Plan	—*	–6.6	0.2	11	11	4.75	2.15p
A	F	**Axe-Houghton Stock Fund/Axe Securities**	13.3	–25.7	0.7	66	–29	none	*1.41*
		Ayco Fund–Risk/Mercer	—*	–6.6	none	10	–25	none	*2.41*

ock fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. Stock ds are graded only if in operation since 7/31/82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 net et value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or force.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not licable or not available.

ible of distributors, showing addresses and phone numbers, begins on page 250.

1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expens per $1
		Standard & Poor's 500 stock average	**16.9%**	**–6.9%**	**3.3%**				
		FORBES stock fund composite	**16.4%**	**–5.6%**	**2.7%**				**$1.49**
		Babson Enterprise Fund/Jones & Babson	—*	–0.9%	0.3%	$52	–8%	none	$1.35
C	C	**Babson Growth Fund/Jones & Babson**	14.5%	–6.4	3.9	209	–28	none	0.74
		Babson Value Fund/Jones & Babson	—*	–3.5	3.9	12	–20	none	1.08
		Baird Blue Chip Fund/Baird	—*	–6.1	0.2	19	73	3.50%	*2.60*
		Baird Capital Development Fund/Baird	—*	–5.7	none	20	–6	3.50	*2.50*
B	C	**Baker, Fentress & Co/closed end**	17.5	–7.2	2.3	410	–13	NA	0.49
		Bankers Sys Granit–Grow Stk/Bankers Sys	—*	–6.4	none	10	–11	none	*2.5*
		Bartlett Capital Trust–Basic Value/Bartlett	—*	–0.8	2.9	83	–16	none	1.57
		Bascom Hill Investors/Madison	—*	–4.0	4.7	8	–8	none	1.15
D	C	**Beacon Hill Mutual Fund/Beacon Hill**	11.9	–17.2	none	3	–18	none	4.00
		Bench Portfolios–Blue Chip/Bench	—*	–8.5	2.5	6	–63	2.00	*1.8*
		Berwyn Fund/Berwyn	—*	–4.7	0.4	11	28	1.00b	1.57
		Blue Chip Value Fund/closed end	—*	–18.9	2.7	69	–21	NA	2.17
C	B	**Boston Co Capital Appreciation/Boston Co**	16.7	–1.0	2.0	492	–13	none	*0.9*
		Boston Co Special Growth Fund/Boston Co	—*	–5.7	3.7	35	–22	none	*1.4*
		Brandywine Fund/Brandywine	—*	–4.0	none	126	28	none	1.20
•C	B	**Bridges Investment Fund/Bridges**	—*	–8.2	4.0	9	–2	1.00b	1.1
B	D	**Bull & Bear Capital Growth/Bull & Bear**	14.5	–10.0	none	67	–29	none	*2.2*
D	B	**Bull & Bear Equity-Income Fund/Bull & Bear**	13.0	–1.3	3.9	14	–24	none	*2.5*
		Calamos Convertible Income/Calamos Finl	—*	–3.7	6.5	25	–6	none	1.3
		Calvert Ariel Growth Fund/Calvert	—*	26.6	0.3	14	190	4.50	*1.2*
		Calvert Fund–Equity/Calvert	—*	–5.6	0.6	9	–17	none	*2.0*
		Calvert–Washington Area Growth/Calvert	—*	–3.7	none	20	–13	6.00r	*2.2*
B	C	**Capital Exchange Fund/‡**	16.7	–6.7	1.9	72	–18	none	0.7
		Capstone Equity Guard Stock[1]/Capstone	—*	–3.0	0.4	11	–51	4.75	2.0
C	B	**Cardinal Fund/Ohio Co**	18.1	–0.9	3.5	130	0	8.50	0.6
		Carnegie-Cappiello Trust–Growth/Carnegie	—*	0.7	2.2	44	–22	4.50	*1.7*
		Carnegie-Cappiello–Total Return/Carnegie	—*	–0.9	6.7	66	–27	4.50	*1.7*
		Cashman Farrell Value Fund/Capstone	—*	8.5	3.0	9	13	4.75	1.5
B	C	**Central Securities/closed end**	18.3	0.4	5.3	125	–9	NA	0.8
D	A	**Century Shares Trust/Century Shares**	15.9	–4.5	3.1	116	–20	none	0.8
B	C	**Charter Fund/AIM**	18.3	–11.0	2.3	71	–29	4.75	*1.3*
B	B	**Chestnut Street Exchange Fund/‡**	17.9	–4.0	2.1	143	–10	none	0.6
		Cigna Aggressive Growth Fund/Cigna	*	–3.5	none	16	–26	5.00	*1.2*
C	C	**Cigna Growth Fund/Cigna**	15.5	–9.3	1.6	204	–23	5.00	*0.8*
		Cigna Value Fund/Cigna	—*	3.3	1.7	61	–2	5.00	*1.0*

[illegible] added to [illegible] if it has at least $5 million in net assets and, if open end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. St[illegible] are [illegible] only if [illegible] since 7/31/82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 [illegible] yield is defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending* [illegible] $ [illegible] periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new sha[illegible] Expenses by [illegible] sponsor. b Includes back end load that reverts to fund. r Includes back end load that reverts to distributor. NA [illegible] [1] Formerly Equity Guard Stock Fund.

Table of Distributors, showing addresses and phone numbers, begins on page 250.

ROAD WARRIORS.

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1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expen per $1
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
B	A	Claremont Capital/closed end	24.0%	–3.5%	0.8%	$59	–15%	NA	$1.01
		Clipper Fund/Pacific Finl	—*	4.7	4.5	80	–11	2.00%b	1.2
•C	•B	Colonial Equity Income Trust/Colonial	—*	–1.0	5.6	17	–2	6.75	1.7
B	C	Colonial Growth Shares Trust/Colonial	17.7	–0.4	1.9	92	–7	6.75	1.0
		Colonial Small Stock Index Trust/Colonial	—*	–2.3	0.6	45	17	4.75	*1.3*
D	B	Colonial Strategic Inc–Diversified/Colonial	12.4	–0.5	4.9	771	–26	6.75	1.0
		Colonial Strategic Inc–Inc Plus/Colonial	—*	–7.0	3.3	145	–29	6.75	1.0
		Colonial US Equity Index Trust/Colonial	—*	–7.9	2.5	42	17	4.75	*1.2*
A	C	Columbia Growth Fund/Columbia	20.0	0.1	1.6	220	–12	none	1.0
		Columbia Special Fund/Columbia	—*	–3.1	none	27	–18	none	1.4
		Common Sense–Growth/Common Sense	—*	–8.0	none	429	509	8.50	2.0
		Common Sense–Grow & Inc/Common Sense	—*	–10.4	2.3	146	463	8.50	1.7
D	A	Commonwealth Indenture A & B/Trusteed	14.2	–0.7	4.7	10	–8	7.50	0.1
D	A	Commonwealth Indenture C/Trusteed	12.7	–1.0	5.2	38	–12	7.50	0.7
C	A	Composite Growth Fund/Murphey Favre	19.2	0.3	4.8	70	–11	4.00	*0.9*
		Composite Select–Northwest/Murphey Favre	—*	–3.0	0.8	8	38	4.00	*1.3*
		Composite Select–Value/Murphey Favre	—*	–13.6	2.1	6	–32	4.00	*1.3*
		Connecticut Mutual–Growth/Conn Mutual	—*	–9.1	1.9	26	–1	6.25	1.2
		Conn Mutual–Tot Return/Conn Mutual	—*	–4.3	3.8	54	9	6.25	1.0
A+	F	Constellation Growth Fund/AIM	22.6	–8.6	none	103	–31	4.75	1.1
		Continental Equity Plus Fund/Continental	—*	–17.1	2.9	10	–13	5.50r	*2.2*
		Continental Option Income Plus/Continental	—*	–2.6	2.3	54	344	5.50r	*2.2*
•D	•A	Copley Fund/Copley	—*	–2.1	none	25	–19	none	1.9
B	B	Corp Leaders Tr Fund Cert Ser B/Lexington	17.0	–8.3	2.7	77	–13	†	0.0
		Counsellors Tandem Securities/closed end	—*	–5.5	1.5	84	–2	NA	1.3
C	C	Country Capital Growth Fund/Country Cap	14.1	–6.7	3.9	68	–14	7.50	0.9
		Cowen Income + Growth Fund/Cowen	—*	–2.2	4.7	31	2	5.00r	2.1
		Criterion Lowry Market Timing/Criterion	—*	3.7	4.7	29	–19	4.75	*1.9*
C	D	Criterion Pilot Fund/Criterion	14.2	–13.1	0.4	57	–27	4.75	*1.2*
•C	•C	Criterion Sunbelt Growth Fund/Criterion	—*	–11.3	1.1	43	–40	4.75	*1.7*
		Criterion Technology Fund/Criterion	—*	0.3	none	6	40	4.75	*2.5*
		Cypress Fund/closed end	—*	–4.6	1.1	90	–10	NA	1.2
•B	D	Dean Witter American Value/Dean Witter	—*	–5.1	2.0	103	–17	5.00r	*1.6*
		Dean Witter Devel Grow Secs/Dean Witter	—*	0.1	none	124	–26	5.00r	*1.9*

A stock fund is [illegible] $5 million in net assets and, if open end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. St[illegible] funds are graded [illegible] $2. Long term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 [illegible] asset value; it may [illegible] the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending [illegible] in force.* •Fund [illegible] maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling [illegible] shares. ‡Closed-end [illegible] assumption of expenses by fund sponsor. b–Includes back-end load that reverts to fund. r–Includes back-end load [illegible] reverts to distributor. [illegible] available.

Table of distributors [illegible] addresses and phone numbers, begins on page 250.

Introducing a revolutionary idea in insurance. The customer.

It's a bit shocking at first. Some might even say radical. But like most revolutionary ideas, this one isn't new. It just hasn't been around in a while. Except in a few places, like Atlantic Mutual.

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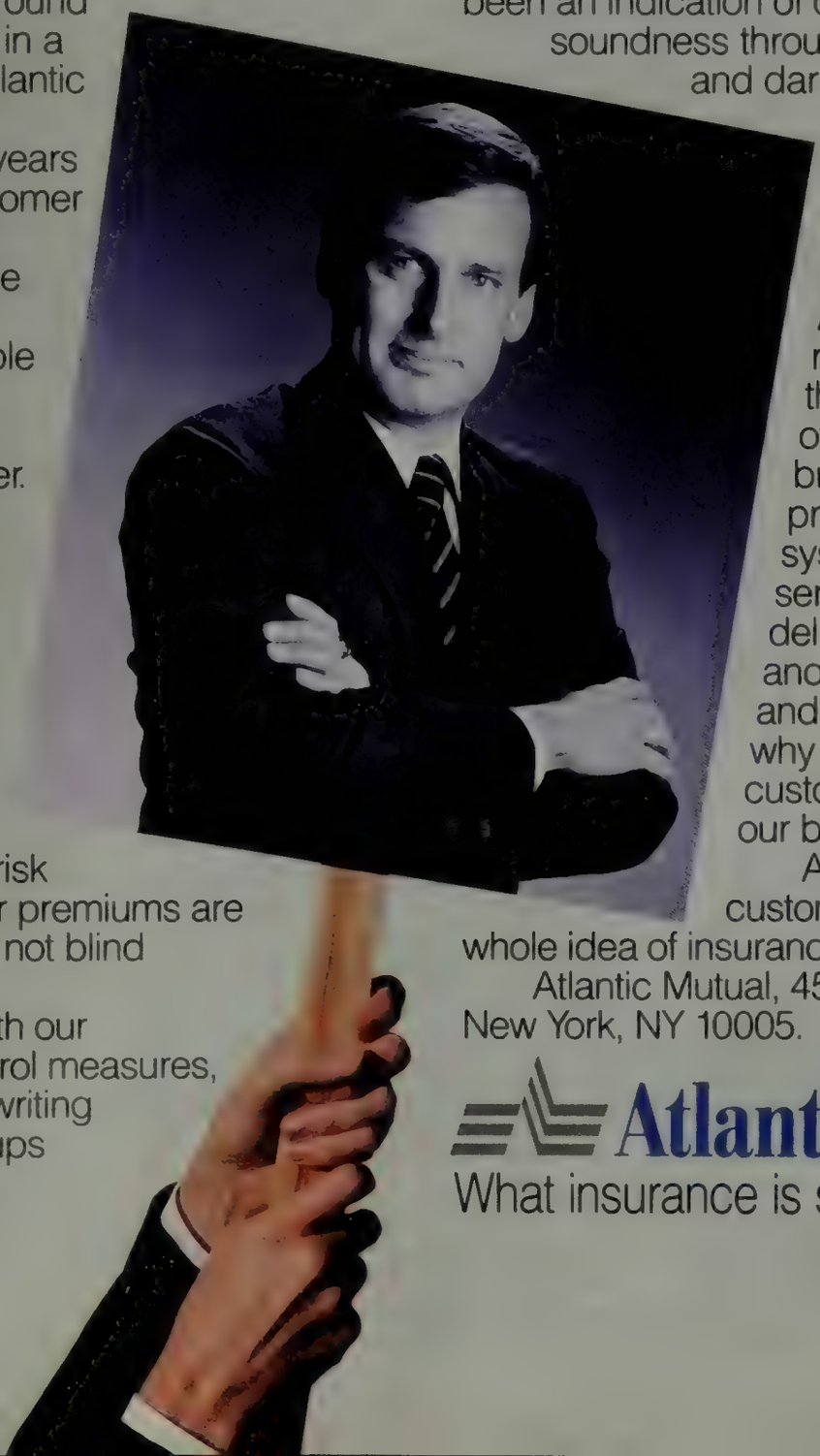

AtlanticMutual

What insurance is supposed to be.

1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Ann exper per $
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.4
•C	•A	Dean Witter Div Grow Secs/Dean Witter	—*	–3.4%	3.8%	$1,781	–13%	5.00%r	*$1.5*
•D	•C	Dean Witter Natural Res Dev/Dean Witter	—*	–3.5	2.0	165	–8	5.00r	*1.8*
		Dean Witter Option Income/Dean Witter	—*	–7.5	2.0	341	–37	5.00r	*1.5*
C	A	Delaware Group Decatur Fund–I[1]/Delaware	17.8%	–3.9	5.7	1,536	–6	8.50	0.6
		Delaware Group Decatur Fund–II/Delaware	—*	–5.0	3.4	185	38	4.75	*1.2*
		Delaware Group DelCap–Concept I/Delaware	—*	7.1	3.0	118	29	4.75	*1.4*
C	B	Delaware Group Trend Fund[2]/Delaware	16.5	–10.9	none	60	–24	8.50	1.2
B	D	Depositors Fund of Boston/‡	15.1	–6.7	1.6	55	–17	none	0.8
		Depositors Invest–Capital Grow/Putnam	—*	–8.3	1.0	13	–15	none	*1.*
B	C	Diversification Fund/‡	16.3	–5.6	1.3	62	–16	none	0.7
•D	•B	Dividend/Growth–Dividend/Dividend Growth	—*	–11.6	3.2	4	–27	none	*1.5*
A	B	Dodge & Cox Stock Fund/Dodge & Cox	19.5	–0.8	3.0	75	6	none	0.6
		Dover Regional Financial Shares/closed end	—*	0.8	1.6	7	–3	NA	1.8
C	B	Drexel Burnham Fund/Drexel	17.3	–2.0	4.3	204	–11	5.00	1.6
		Drexel Series–Convertible Secs/Drexel	—*	–10.8	5.5	25	–38	5.00r	*2*
		Drexel Series–Emerging Growth/Drexel	—*	–25.1	none	15	–56	5.00r	*2.*
		Drexel Series–Growth/Drexel	—*	–3.0	1.8	33	–22	5.00r	*2*
		Drexel Series–Option Income/Drexel	—*	–3.2	3.0	33	–30	5.00r	*2.6*
		Dreyfus Capital Value Fund/Dreyfus	—*	11.1	1.2	488	NM	4.50	*1.7*
D	B	Dreyfus Fund/Dreyfus	16.7	–2.5	5.2	2,648	–2	none	0.
		Dreyfus General Aggressive Grow/Dreyfus	—*	–1.0	1.0	45	–9	none	*1.*
A	D	Dreyfus Growth Opportunity Fund/Dreyfus	17.5	–2.1	3.9	599	8	none	0.
		Dreyfus Index Fund/Dreyfus	—*	–6.4	2.4	33	47	none	N
B	C	Dreyfus Leverage Fund/Dreyfus	17.5	–9.0	2.9	497	–16	4.50	1.
		Dreyfus New Leaders Fund/Dreyfus	—*	–3.6	0.4	120	2	none	*1*
		Dreyfus Strategic Aggres Inv LP/Dreyfus	—*	17.3	none	155	NM	3.00	N
		Dreyfus Strategic Investing/Dreyfus	—*	–3.3	1.2	117	3	4.50	*1.*
B	[illegible]	Dreyfus Third Century Fund/Dreyfus	16.0	–3.9	6.0	156	–11	none	1.
D	[illegible]	Eagle Growth Shares/Fahnestock	10.9	7.9	none	2	–31	8.50	2.
D	B	Eaton & Howard Stock Fund/Eaton Vance	14.8	–2.6	3.5	79	–10	7.25	0.
B	B	Eaton Vance Growth Fund/Eaton Vance	17.9	–5.7	0.8	89	–12	4.75	1.
D	B	Eaton Vance Special Equities/Eaton Vance	16.6	–2.6	none	35	–14	7.25	1.
•C	•B	Eaton Vance Total Return Trust/Eaton Vance	—*	–11.4	9.4	516	–26	4.75	*1.*
		Equity Fund/Eclipse	—*	4.4	4.7	160	5	none	1.
		Technology/AMA	—*	–20.1	none	7	–43	4.75	*3*
C	C	Energ[illegible]	15.0	–8.6	3.4	389	–18	none	0.

A stock fund is added to this list [illegible] in net assets and, if open-end, is at least 12 months old, a fund is dropped when its assets fall below $2 million. [illegible] funds are graded only if in operation [illegible] long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/8[illegible] asset value; it may differ from yield [illegible] C. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pendi[illegible] in force.* • Fund rated for two periods [illegible] allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new sh[illegible] p Net of partial absorption of expenses [illegible] b Includes back-end load that reverts to fund. r Includes back-end load that reverts to distributor. NA [illegible] applicable or not available. NM: Not meaningful. [1]Formerly Decatur Fund-Series I. [2]Formerly Delta Trend Fund.

Table of distributors, showing addre[illegible]s and phone numbers, begins on page 250.

In Alabama, there are still some places without electricity.

The Rural Electric Cooperatives of Alabama, providing a better quality of life for rural Alabama, co-sponsored this ad with the State of Alabama.

Wide-open spaces are choice locations for industry.

(The following comments are by Dail Gibbs, representing the Rural Electric Cooperatives of Alabama.)

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"And anyplace in the state, you can be supplied with abundant, economical electrical power.

"What's more, Alabama is a great place to live, for you and your family and your company's employees. There's a wealth of space for outdoor recreation. Three-fourths of the state is forestland, and we're blessed with a great supply of waterways and lakes.

"Alabama has more deer and turkey per square mile than any other state in the country.

"Come on down and join us. There's plenty of elbow room. In more ways than one, Alabama is open for business."

ALABAMA
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1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Standard & Poor's 500 stock average	**16.9%**	**–6.9%**	**3.3%**				
		Forbes stock fund composite	**16.4%**	**–5.6%**	**2.7%**				**$1.49**
A+	D	**Engex/closed end**	20.3%	–27.7%	none	$12	–47%	NA	$6.68
C	B	**Enterprise Group–Growth[1]/Enterprise**	18.6	1.6	0.7%	39	18	5.00%r	*1.70p*
		Equitec Siebel Aggressive Growth/Equitec	—*	–4.4	4.8	44	–2	5.00r	*2.50p*
		Equitec Siebel Total Return Fund/Equitec	—*	–1.5	2.3	152	8	5.00r	*2.13p*
•C	•D	**Equity Strategies Fund/EQSF**	—*	–11.9	none	52	–14	†	2.40
A	C	**Evergreen Fund/Lieber**	22.8	–0.6	2.0	740	–5	none	1.04p
•C	A	**Evergreen Total Return Fund/Lieber**	—*	–1.6	5.4	1,381	–20	none	1.01p
		Evergreen Value Timing Fund/Lieber	—*	1.9	1.6	23	2	none	1.76
B	C	**Exchange Fund of Boston/‡**	16.7	–4.5	1.6	57	–20	none	0.76
A	D	**Fairfield Fund/National Secs**	15.7	–6.3	1.6	44	–16	8.50	1.20
•B	•B	**Fairmont Fund/Fairmont**	—*	–11.2	1.0	82	–26	none	1.18
D	C	**FBL–Growth Common Stock[2]/FBL Investment**	10.9	–11.7	9.4	48	–16	5.00r	*1.20*
B	C	**Federated Exchange Fund/‡**	17.4	–7.7	2.6	95	–15	none	0.92
		Federated Growth Trust/Federated	—*	3.7	1.2	114	–20	none	1.00
		Federated High Quality Stock/Federated	—*	–5.1	2.4	28	–19	1.75r	*1.25p*
•A	•A	**Federated Stock Trust/Federated**	—*	–6.2	3.0	642	–14	none	0.89
		Federated Utility Trust/Federated	—*	2.8	6.4	10	48	none	1.04
		Fidelity Capital Appreciation/Fidelity	—*	10.3	0.2	1,444	30	3.00r	1.57
B	B	**Fidelity Congress Street Fund/‡**	19.2	–7.7	3.8	55	–16	none	0.65
B	C	**Fidelity Contrafund/Fidelity**	15.0	–10.9	none	99	–29	none	0.92
A	B	**Fidelity Destiny Portfolio I/Fidelity**	22.3	–1.7	3.1	1,440	–1	**	0.50
		Fidelity Destiny Portfolio II/Fidelity	—*	–0.3	0.5	78	109	**	1.09
C	A	**Fidelity Equity-Income Fund/Fidelity**	20.8	1.6	5.8	4,105	–2	2.00	0.66
B	C	**Fidelity Exchange Fund/‡**	16.7	–9.2	4.0	144	–18	none	0.60
		Fidelity Freedom Fund/Fidelity	—*	–2.8	1.8	1,356	0	none	0.97
C	B	**Fidelity Fund/Fidelity**	17.3	–4.4	3.1	936	–16	none	0.67
		Fidelity Growth & Income/Fidelity	—*	1.1	4.4	1,268	–15	2.00	1.09
		Fidelity Growth Company/Fidelity	—*	–4.9	0.1	148	–17	3.00	1.16
A+	A	**Fidelity Magellan Fund/Fidelity**	32.4	–5.1	0.7	9,257	–15	3.00	1.14
		Fidelity OTC Portfolio/Fidelity	—*	–1.8	0.1	968	–19	3.00	1.44
		Fidelity Plymouth–Income & Growth/Fidelity	—*	4.4	4.5	37	29	4.00	2.01
		Fidelity Real Estate Investment/Fidelity	—*	–4.2	7.5	71	–31	2.00	1.50
		Fidelity Select–Air Transportation/Fidelity	—*	–14.3	0.2	8	–60	3.00r	2.62
		Fidelity Select–American Gold/Fidelity	—*	–4.6	0.4	209	–15	3.00r	2.33
		Fidelity Select–Automation Mach/Fidelity	—*	–11.9	0.2	5	168	3.00r	2.57
		Fidelity Select–Automotive/Fidelity	—*	2.5	0.3	9	70	3.00r	2.49

[illegible] included in this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. St[illegible] only if in operation since 7/31/82. Long term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 [illegible] may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending* [illegible] •Performance rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling n[illegible] **Available only through monthly contractual plan. †Closed to all investors. p: Net of partial absorption of expenses by fund sponsor. b: Includes back-end load t[illegible] r: Includes back-end load that reverts to distributor. NA: Not applicable or not available. [1]Formerly Alpha Fund. [2]Formerly Farm Bureau Growth Fun[illegible]

Table of distributors, showing addresses and phone numbers, begins on page 250.

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1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expens per $1
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
		Fidelity Select–Biotechnology/Fidelity	—*	–21.8%	none	$45	–34%	3.00%r	$2.15
		Fidelity Select–Broadcast & Media/Fidelity	–*	3.4	0.1%	17	–52	3.00r	2.48
		Fidelity Select–Brokerage & Inv/Fidelity	—*	–27.8	0.5	7	–37	3.00r	2.58
		Fidelity Select–Capital Goods/Fidelity	—*	–12.4	none	8	147	3.00r	2.65
		Fidelity Select–Chemicals/Fidelity	—*	6.0	none	158	8	3.00r	1.93
		Fidelity Select–Computers/Fidelity	—*	–19.8	0.1	30	–37	3.00r	2.62
		Fidelity Select–Defense & Aero/Fidelity	—*	–19.0	none	2	–40	3.00r	2.33
		Fidelity Select–Electric Utilities/Fidelity	—*	0.7	4.5	26	282	3.00r	2.49
		Fidelity Select–Electronics/Fidelity	—*	–19.4	none	19	84	3.00r	2.54
•D	•B	Fidelity Select–Energy/Fidelity	—*	–10.2	0.2	88	–40	3.00r	2.09
		Fidelity Select–Energy Service/Fidelity	—*	–37.0	none	24	–88	3.00r	2.71
•B	•B	Fidelity Select–Financial Services/Fidelity	—*	–9.8	0.4	32	–47	3.00r	2.47
		Fidelity Select–Food & Agriculture/Fidelity	—*	–4.9	0.2	10	–49	3.00r	2.45
•A	•D	Fidelity Select–Health Care/Fidelity	—*	–18.5	none	204	–49	3.00r	1.64
		Fidelity Select–Housing/Fidelity	—*	–9.1	none	8	181	3.00r	2.70
		Fidelity Select–Industrial Materials/Fidelity	—*	–4.5	0.1	49	24	3.00r	2.43
		Fidelity Select–Leisure/Fidelity	—*	–4.8	none	59	–64	3.00r	1.96
		Fidelity Select–Medical Delivery/Fidelity	—*	–16.7	0.3	3	–67	3.00r	2.49
		Fidelity Select–Paper & Forest Prod/Fidelity	—*	–10.4	0.3	19	–66	3.00r	2.55
•B	•F	Fidelity Select–Prec Metals & Mins/Fidelity	—*	–22.2	0.6	226	–44	3.00r	2.02
		Fidelity Select–Prop & Casualty/Fidelity	—*	–6.3	1.3	4	–60	3.00r	2.44
		Fidelity Select–Regional Banks/Fidelity	—*	4.2	0.6	12	163	3.00r	2.48
		Fidelity Select–Retailing/Fidelity	—*	–6.7	1.9	9	–79	3.00r	2.47
		Fidelity Select–Savings & Loan/Fidelity	—*	–7.7	none	7	–70	3.00r	2.5
		Fidelity Select–Software & Comp/Fidelity	—*	–5.8	none	23	–61	3.00r	2.5
•C	•F	Fidelity Select–Technology/Fidelity	—*	–21.4	none	143	–44	3.00r	1.7
		Fidelity Select–Telecom/Fidelity	—*	7.0	0.1	36	27	3.00r	2.4
•D	•A	Fidelity Select–Utilities/Fidelity	—*	2.7	1.7	94	–9	3.00r	1.9
		Fidelity Special Situations–Initial/Fidelity	—*	–1.0	1.6	20	–33	††	1.5
		Fidelity Special Sits–Plymouth/Fidelity	—*	–1.3	1.6	207	–17	4.00	*1.7*
C	C	Fidelity Trend Fund/Fidelity	15.5%	–3.3	1.1	767	–6	none	0.4
•B	B	Fidelity Value Fund/Fidelity	—*	–8.4	none	91	–28	none	1.2
•D	•C	Fiduciary Capital Growth/Fiduciary Mgmt	—*	–1.1	0.9	44	–19	none	1.1
B	C	Fiduciary Exchange Fund/‡	17.7	–4.6	1.8	55	–11	none	0.7
C	D	Financial Dynamics Fund/Financial Prog	13.6	–18.2	0.3	123	25	none	1.0
		Financial Independence–Growth/MGF	—*	–19.1	none	18	–38	4.75	*1.7*

A stock fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. St funds are graded only if in operation since 7/31/82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 asset value; it may differ from "Yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending in force.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling r shares. ††Closed to new investors. p: Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load reverts to distributor. NA: Not applicable or not available.

Table of distributors, showing addresses and phone numbers, begins on page 250.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**16.9%**	**–6.9%**	**3.3%**				
		FORBES stock fund composite	**16.4%**	**–5.6%**	**2.7%**				**$1.49**
C	D	**Financial Industrial Fund/Financial Prog**	14.4%	–11.8%	1.8%	$357	–21%	none	$0.77
D	A	**Financial Industrial Income/Financial Prog**	16.2	–1.2	4.5	381	–16	none	0.78
		Financial Strategic–Energy/Financial Prog	—*	–16.8	1.5	7	–65	none	1.30
		Financial Strategic–Gold/Financial Prog	—*	–28.4	1.1	30	–30	none	1.21
		Financial Strategic–Health Sci/Financial Prog	—*	–12.1	none	14	–28	none	1.40
		Financial Strategic–Leisure/Financial Prog	—*	2.1	none	6	–19	none	1.50p
		Financial Strategic–Technology/Financial Prog	—*	–12.4	none	20	–36	none	1.47
		Financial Strategic–Utilities/Financial Prog	—*	1.6	5.9	27	55	none	1.39
		First Eagle Fund of America/First Eagle	—*	7.6	0.6	49	69	1.00%b	*2.80*
		First Financial Fund/closed end	—*	–1.1	2.0	79	–5	NA	1.46
D	D	**First Investors Discovery Fund/First Inv**	9.7	–19.9	none	25	–30	8.50	*1.42*
D	F	**First Investors Fund for Growth/First Inv**	8.1	–20.5	0.7	39	–35	8.50	*1.13*
F	A	**First Investors Option Fund/First Inv**	10.4	–9.2	3.3	167	–26	7.25	*1.20*
		First Investors Value Fund/First Inv	—*	–8.7	0.7	10	51	8.50	*1.77*
		Flag Investors Corporate Cash/Brown	—*	6.7	8.7	37	–36	none	*1.30p*
		Flag Investors Telephone Income/Brown	—*	9.8	5.0	104	2	††	*0.88*
		Flex-funds–Growth Fund/Flex	—*	–9.4	2.0	16	12	none	*1.48*
		Flex-funds–Income & Growth Fund/Flex	—*	–7.2	5.9	4	–30	none	*1.00p*
		Flex-funds–Retirement Growth/Flex	—*	–15.1	2.6	80	–14	none	*1.34*
•C	F	**44 Wall Street Equity Fund/44 Secs**	—*	–43.3	none	5	–61	1.00	2.46
D	F	**44 Wall Street Fund/44 Secs**	–5.3	–44.4	none	7	–66	0.25r	5.06
C	C	**Founders Blue Chip[1]/Founders**	14.3	–12.5	2.6	174	–24	none	*0.98*
D	A+	**Founders Equity Income Fund/Founders**	13.6	–4.2	4.9	13	–18	none	*1.84*
		Founders Frontier Fund/Founders	—*	18.6	none	9	93	none	*2.25p*
A	C	**Founders Growth Fund/Founders**	18.6	–10.9	1.7	65	–29	none	*1.54*
A	D	**Founders Special Fund/Founders**	16.9	–7.2	0.6	77	–12	none	1.14
C	B	**FPA Capital Fund/Angeles Secs**	15.6	14.0	1.2	68	16	6.50	0.89
D	A	**FPA Paramount Fund/Angeles Secs**	19.9	13.2	2.4	139	3	6.50	1.06
		FPA Perennial Fund/Angeles Secs	—*	3.0	3.4	53	–19	6.50	1.11
C	C	**Franklin DynaTech Fund/Franklin**	16.6	–0.7	0.5	39	–15	4.00	0.85
B	C	**Franklin Equity Fund/Franklin**	18.1	–0.7	1.7	342	14	4.00	0.70
D	B	**Franklin Growth Fund/Franklin**	16.3	4.7	2.0	109	25	4.00	0.78
		Franklin Holding Corp/closed end	—*	–6.2	none	16	–7	NA	7.69
		Franklin Mngd Trust Rising Divs/Franklin	—*	5.9	5.4	34	20	3.00	*1.79*
D	B	**Franklin Option Fund/Franklin**	15.1	0.7	2.7	47	14	4.00	0.84
F	A+	**Franklin Utilities Fund/Franklin**	13.8	2.8	7.5	625	–4	4.00	0.63

ock fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. Stock ds are graded only if in operation since 7/31/82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 net et value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or force.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new res. ††Closed to new investors. p: Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that erts to distributor. NA: Not applicable or not available. [1]Formerly Founders Mutual Fund.

ıble of distributors, showing addresses and phone numbers, begins on page 250.

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39. Toshiba America, Inc. C Products Group
40. Varig Brazilian Airlines
41. Varitronic Systems Incorporated
42. Victorinox Swiss Army Knives
43. Zenith Data Systems

Annual Reports

44. ALLTEL Corporation
45. BP America

*46. Fansteel

47. Johnson Controls, Inc.
48. Scudder New Asia Fun

Financial Products/Services Information

49. Legg Mason Value Trust
50. Nicholas Fund
51. Pacific Financial Companies
52. T. Rowe Price High Yield Fund
53. Scudder International Bond Fund
54. SteinRoe Cash Reserves
55. SteinRoe Managed Municipals
56. SteinRoe Special Fund
57. Strong Funds
58. Twentieth Century Inve Inc.

*59. USF&G Corporation

Area Development Information

60. Alabama Development Office
61. State of Michigan

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1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
		Freedom Equity Value Fund/Tucker Anthony	—*	–0.7%	0.9%	$15	–7%	3.00%r	*$2.68*
		Freedom Inv–Gold & Govt/Tucker Anthony	—*	5.0	4.9	84	4	3.00r	*1.94*
		Freedom Inv–Regional Bank/Tucker Anthony	—*	5.3	1.1	45	–14	3.00r	*2.26*
C	B	Fund of America/American Cap	19.1%	–5.5	2.0	185	–4	8.50	0.71
C	D	Fund of the Southwest/Capstone	15.2	–6.0	0.3	15	–10	4.75	1.50p
B	B	Fundamental Investors/American Funds	17.4	–6.8	2.6	667	–4	5.75	*0.63*
		FundTrust–Aggressive Growth/Furman Selz	—*	–5.7	1.6	29	–39	1.50	*1.50p*
		FundTrust–Growth/Furman Selz	—*	–3.2	2.8	49	11	1.50	*1.64p*
		Gabelli Asset Fund/Gabelli	—*	12.0	1.0	111	28	2.00b	*1.26p*
		Gabelli Equity Trust/closed end	—*	5.8	1.4	488	–5	NA	1.24
		Gabelli Growth Fund/Gabelli	—*	14.4	none	6	182	2.00	*2.00p*
F	A	Gateway Option Index Fund/Gateway	10.3	–4.6	1.5	28	–40	none	1.48
A	C	General American Investors/closed end	19.2	–10.1	1.8	324	–17	NA	1.19
D	B	General Securities/Craig-Hallum	15.7	7.1	3.4	18	2	none	1.49
		Gintel Capital Appreciation Fund/Gintel	—*	1.2	0.8	24	–4	none	*1.80*
•D	•A	Gintel ERISA Fund/Gintel	—*	–1.8	3.8	80	–23	none	*1.20*
•D	•B	Gintel Fund/Gintel	—*	–7.2	1.6	83	–31	none	1.30
		GIT Equity Trust–Special Growth/GIT	—*	3.8	0.8	16	–17	none	1.50
		Global Growth & Income–Cap[1] Global Growth & Income–Inc[1]	—*	–2.2	5.6	91	–8	NA	1.21
		Gradison Established Growth/Gradison	—*	5.0	4.0	81	38	none	*1.57*
		Gradison Opportunity Growth/Gradison	—*	0.1	0.8	19	–9	none	*1.83*
		Greenspring Fund/Greenspring	—*	8.5	7.3	21	17	none	1.36
B	B	Growth Fund of America/American Funds	21.5	1.5	1.6	1,129	–1	5.75	*0.66*
		Growth Fund of Washington/Washington	—*	–3.0	1.2	51	–11	5.00	*1.74*
C	C	Growth Industry Shares/Growth Industry	17.9	–2.1	1.7	66	–19	none	0.90
		Growth Stock Outlook Trust/closed end	—*	4.0	3.7	134	–4	NA	1.51
B	B	Guardian Mutual Fund/Neuberger	18.7	0.2	3.1	535	–10	none	0.74
B	B	Guardian Park Ave Fund/Guardian	19.9	2.5	2.6	185	4	4.50	0.68
		Hampton Utils–Capital Shares/closed end	—*	—*	—*	20	—	NA	1.00
A	D	John Hancock Growth Trust/Hancock	17.7	–6.3	1.7	110	–7	8.50	1.00
		John Hancock Special Equities/Hancock	—*	–16.4	none	13	–21	8.50	1.50p
		H&Q Healthcare Investors/closed end	—*	–13.3	0.3	45	–13	NA	2.05
		Harbor Growth Fund/Harbor	—*	–3.7	0.9	119	3	none	1.33
A+	F	Hartwell Emerging Growth[2]/Hartwell	19.9	–2.7	none	28	–40	3.00	1.80
A+	D	Hartwell Growth Fund/Hartwell	20.2	–6.1	none	19	–28	3.00	2.70

[illegible] fund is added to this list if it has at least $5 million in net assets and, if open end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. Stock [illegible] if in operation since 7/31/82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 n[illegible] [illegible] is defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending* [illegible] •Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. [illegible] of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: N[illegible] [illegible] fund. Performance, asset and expense data on capital and income shares treated as a unit. [2]Formerly Hartwell Leverage Fund.

[illegible] of distributors, showing addresses and phone numbers, begins on page 250.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**16.9%**	**–6.9%**	**3.3%**				
		Forbes stock fund composite	**16.4%**	**–5.6%**	**2.7%**				**$1.49**
		Heartland Group–Value Fund/Milwaukee Co	—*	–5.7%	0.4%	$32	–16%	4.50%	*$1 50*
		Heritage Capital Appreciation/James	—*	–2.9	1.0	45	–14	3.00	*2.00p*
		Hidden Strength–Growth/Global Capital	—*	–4.4	0.5	33	94	4.75	*1.33*
		Wayne Hummer Growth Fund/Hummer	—*	–5.6	1.4	22	6	none	*1.50p*
		Hutton Investment–Basic Value/Shearson	—*	–8.0	2.1	407	–23	5.00r	1.48
•C	•C	**Hutton Investment–Growth/Shearson**	—*	–11.8	2.3	1,206	–27	5.00r	1.44
		Hutton Investment–Option Inc/Shearson	—*	–5.2	4.0	45	–28	5.00r	3.08
		Hutton Investment–Prec Metals/Shearson	—*	–4.3	2.2	116	–10	5.00r	*1.66*
		Hutton Investment–Spec Equities/Shearson	—*	–12.3	none	188	–29	5.00r	*2.09*
		IAI Apollo/IAI Funds	—*	–0.8	0.9	23	–10	none	1.00
•A	B	**IAI Regional Fund/IAI Funds**	—*	0.5	1.3	91	–9	none	0.80
C	B	**IAI Stock Fund/IAI Funds**	16.8%	–6.4	1.8	82	–10	none	0.80
		IDEX Fund/Idex	—*	–9.1	1.9	66	–18	††	1.49
		IDEX II/Idex	—*	–7.0	1.5	65	–11	††	1.40
		Idex Fund III/Idex	—*	–6.5	1.4	42	321	8.50	1.48p
•C	•C	**IDS Discovery Fund/IDS**	—*	–5.4	1.7	198	–23	5.00	*0.67p*
B	C	**IDS Equity Plus/IDS**	16.5	–1.9	2.8	400	–14	5.00	0.57
A+	D	**IDS Growth Fund/IDS**	21.0	–18.9	1.4	659	–27	5.00	0.67p
		IDS Managed Retirement Fund/IDS	—*	–8.5	1.7	755	4	5.00	*0.88*
A	B	**IDS New Dimensions Fund/IDS**	21.9	–3.4	2.3	681	–7	5.00	0.79p
		IDS Precious Metals Fund/IDS	—*	–9.5	1.5	119	17	5.00	*1 11*
C	B	**IDS Progressive Fund/IDS**	17.4	–6.6	4.1	190	–12	5.00	0.70p
D	B	**IDS Stock Fund/IDS**	14.8	–6.5	3.3	1,286	–19	5.00	0.57p
		IDS Strategy–Aggressive Equity/IDS	—*	–18.4	none	265	–18	5.00r	*1.68p*
		IDS Strategy–Equity/IDS	—*	10.2	4.5	191	27	5.00r	*1.65*
		IMG Stock Accumulation/Investors Mgmt	—*	–9.1	2.3	6	–19	5.00	1.59
		Indust–Mackenzie American/Mackenzie	—*	6.7	1.1	32	70	8.50	1.74p
		Integrated Capital Appreciation/Integrated	—*	–4.4	0.2	215	–12	5.00r	*2.29*
		Integrated Equity–Aggres Grow/Integrated	—*	14.5	none	19	82	4.75	*2.25p*
		Integrated Equity–Growth/Integrated	—*	2.1	0.5	33	217	4.75	*1.88*
		Interstate Capital Growth Fund/Interstate	—*	–9.1	0.4	10	–39	2.50	*3.35p*
B	B	**Investment Co of America/American Funds**	18.3	–4.5	3.8	4,149	–9	5.75	*0.42*
		Investment Portfolios–Equity/Kemper	—*	–9.5	0.7	280	–5	5.00r	2.11
		Investment Portfolios–Option Inc/Kemper	—*	–7.8	15.2	445	–5	5.00b	2.07
C	D	**Investment Trust of Boston/ITB**	13.1	–8.6	3.4	60	–18	7.00	*1.25p*
A	D	**Investors Research Fund/Diversified**	19.8	–8.9	1.2	78	–12	8.50	0.79

stock fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. Stock nds are graded only if in operation since 7/31/82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 net set value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or force.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not plicable or not available.

able of distributors, showing addresses and phone numbers, begins on page 250.

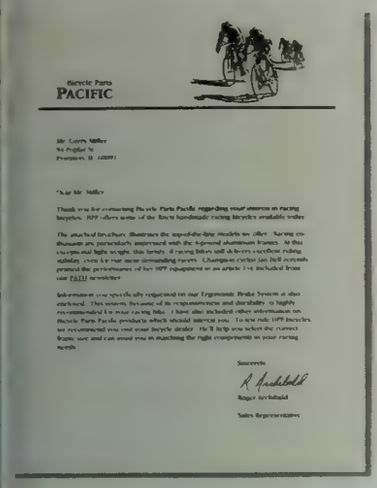
1988 Fund Ratings/Stock

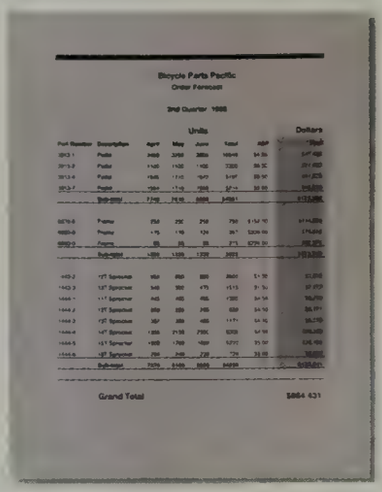
Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
•B	•C	IRI Stock Fund/IRI	—*	–1.7%	3.2%	$6	–38%	4.50%	*$1.96p*
F	A	ISI Growth Fund/Sigma	10.9%	–4.7	0.1	12	–11	6.00	1.52p
F	A+	ISI Trust Fund/Sigma	10.3	3.8	4.6	99	–6	6.00	0.86p
		Italy Fund/closed end	—*	–29.4	3.3	56	–30	NA	1.92
C	A	Ivy Growth Fund/Ivy	19.8	–8.8	2.4	182	–11	none	1.27
C	A	Janus Fund/Janus	20.1	–2.0	2.8	386	–20	none	0.98
		Janus Value Fund/Janus	—*	–16.8	4.1	14	–28	none	1.70
		Janus Venture Fund/Janus	—*	0.1	0.5	34	–24	none	1.35
D	B	JP Growth Fund/Jefferson-Pilot	15.5	–7.7	2.6	25	–12	8.00	0.79
A	D	Kemper Growth Fund/Kemper	18.6	–5.5	2.7	292	–17	8.50	0.75
F	A	Kemper Option Income Fund/Kemper	11.2	–7.5	4.0	407	–30	8.50	0.93
A	D	Kemper Summit Fund/Kemper	19.0	–5.7	3.4	276	–22	8.50	0.66
		Keystone America Equity Income/Keystone	—*	–3.2	5.6	22	591	4.00r	*1.00p*
B	D	Keystone Custodian K-2/Keystone	13.2	–14.8	2.2	344	–9	4.00b	*2.04*
C	D	Keystone Custodian S-1/Keystone	12.5	–11.6	2.3	196	–10	4.00b	*1.51*
B	D	Keystone Custodian S-3/Keystone	15.9	–2.2	2.1	267	–7	4.00b	*1.48*
A	F	Keystone Custodian S-4/Keystone	14.8	–15.8	none	494	–27	4.00b	*1.14*
		Kidder Peabody Equity Income/Kidder	—*	–8.5	2.5	73	–12	5.00r	*1.91*
		Kidder Peabody MarketGuard/Kidder	—*	2.2	5.6	50	–22	4.00[1]	1.06
		Kidder Peabody Special Growth/Kidder	—*	–9.8	0.2	20	–35	5.00r	*2.22*
		Landmark Capital Growth/Landmark Funds	—*	–26.0	0.8	12	–39	none	*2.46p*
		Landmark Growth & Income/Landmark Funds	—*	–3.2	4.1	12	–31	none	*2.00p*
		Lazard Frères–Equity Fund/Lazard	—*	–2.8	1.4	15	47	none	*1.91*
		Legg Mason Special Investment/Legg Mason	—*	–6.1	0.7	47	–15	none	*2.50p*
		Legg Mason Total Return Trust/Legg Mason	—*	–4.8	2.6	35	–22	none	*2.30*
		Legg Mason Value Trust/Legg Mason	—*	–3.3	1.5	708	–19	none	*1.97p*
A	B	Lehman Capital Fund/Shearson	22.1	–9.4	none	86	–29	5.00	1.17p
C	B	Lehman Corp/closed end	17.2	–6.7	3.2	881	–14	NA	0.44
C	B	Lehman Investors Fund/Shearson	17.6	–8.5	2.8	372	–21	5.00	0.58
[illegible]	A	Lehman Opportunity Fund/Shearson	—*	3.0	3.2	94	–10	none	1.16
D	D	Lepercq-Istel Fund/Lepercq	12.7	–9.7	3.3	22	–22	none	*1.44*
•B	•D	Leverage Fund of Boston/Eaton Vance	—*	–15.6	none	21	–28	none	1.33
•A	[illegible]	[illegible] Goldfund/Lexington	—*	–6.3	0.3	98	22	none	1.28p
A	D	[illegible] Growth Fund/Lexington	13.5	–11.0	6.1	29	–32	none	1.34
C	[illegible]	[illegible] Research Fund/Lexington	15.2	–9.9	4.8	117	–20	none	0.96
		[illegible] Equity Fund/closed end	—*	–14.3	1.9	453	–26	NA	1.84

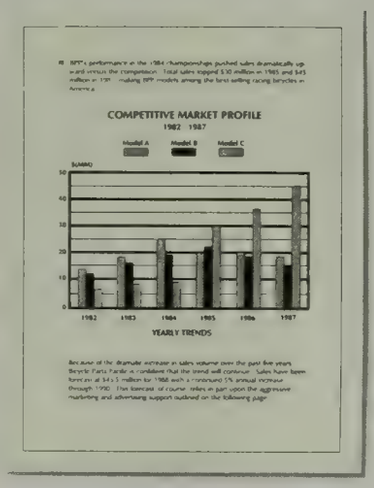
A stock fund is added [illegible] $2 million in net assets and, if open end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. Stock funds are graded [illegible] Long term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 net asset value. It may [illegible] the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending [illegible] in force.* • Fund [illegible] maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. p Net of partial absorption [illegible] sponsor. b Includes back end load that reverts to fund. r Includes back-end load that reverts to distributor. NA. Not applicable or not available. [illegible] twice a year, in April and December.

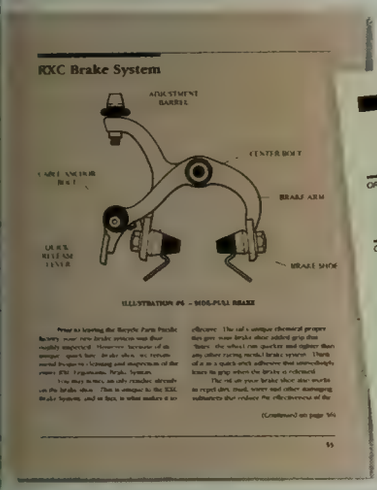
Table of distributors, [illegible]ing addresses and phone numbers, begins on page 250.

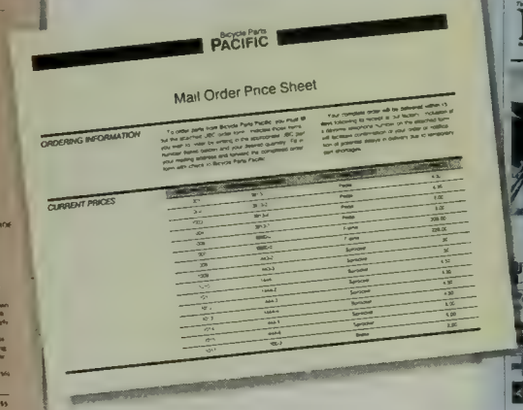
How to look good from start...

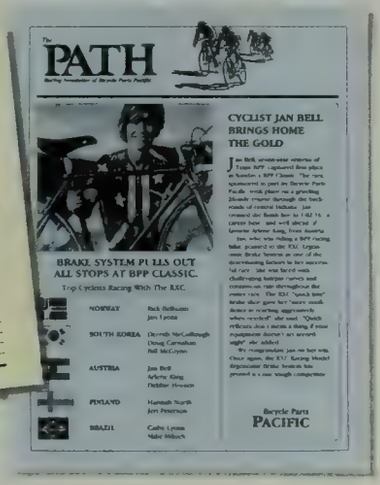












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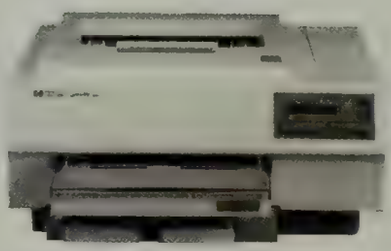

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1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
		Lindner Dividend Fund/Lindner	—*	7.4%	8.7%	$62	0%	none	$1.04
D	A+	Lindner Fund/Lindner	22.8%	7.5	5.5	405	0	none	1.07
		LMH Fund/Heine Mgmt	—*	–2.3	12.9	40	–48	none	1.46p
A+	B	Loomis-Sayles Capital Devel/New England	25.1	–11.6	0.2	217	–26	††	0.93
C	D	Lord Abbett Developing Growth/Lord Abbett	14.7	–7.5	none	192	–24	7.25%	0.92
		Lord Abbett Fundamental Value/Lord Abbett	—*	–2.0	2.0	24	6	7.25	*1.44*
		Lord Abbett Value Appreciation/Lord Abbett	—*	1.6	2.5	235	–19	7.25	0.89
D	A	Lutheran Brotherhood Fund/Lutheran	15.1	–12.0	3.8	269	–9	5.00	1.08p
		MacKay-Shields MainStay–Cap Ap/NYLife	—*	–16.8	none	32	–1	5.00r	*2.60*
		MacKay-Shields MainStay–Value/NYLife	—*	–11.2	0.4	17	–6	5.00r	*2.70*
C	C	Mairs & Power Growth Fund/Mairs & Power	14.7	–10.8	2.0	22	–17	none	1.04
•C	A	Mairs & Power Income Fund/Mairs & Power	—*	0.8	4.9	7	2	none	1.20
A	C	Manhattan Fund/Neuberger	19.7	–8.7	1.9	416	–21	none	1.00
C	D	Horace Mann Growth Fund/Mann	15.1	–8.1	2.9	88	–8	†	0.67
A	C	Mass Capital Development Fund/Mass Finl	20.8	–11.6	1.8	841	–23	7.25	0.83
A	D	Mass Financial Development/Mass Finl	17.7	–9.6	1.9	242	–20	7.25	0.79
•A	•D	Mass Financial Emerging Growth/Mass Finl	—*	–12.2	none	246	–23	7.25	1.45
		Mass Financial Special Fund/Mass Finl	—*	–6.1	1.2	121	–21	7.25	1.33
B	C	Mass Investors Growth Stock/Mass Finl	16.1	–11.8	1.8	829	–21	7.25	0.55
C	C	Mass Investors Trust/Mass Finl	15.6	–9.7	3.3	1,208	–19	7.25	0.53
B	B	Mathers Fund/Mathers	18.7	14.8	2.8	191	19	none	0.82
•A	D	Medical Technology Fund/AMA	—*	–14.9	none	41	–31	none	*1.90*
D	B	Meeschaert Capital Accum/Meeschaert	10.6	–17.7	0.5	37	–13	4.00b,r	*1.48*
		Meeschaert Gold and Currency/Meeschaert	—*	–6.8	0.7	38	NM	4.00b,r	*2.12*
		Meridian Fund/Meridian	—*	–3.1	0.2	11	–43	none	1.85p
C	A	Merrill Lynch Basic Value Fund/ML Funds	18.9	1.8	3.4	1,079	–7	6.50	0.58
C	A	Merrill Lynch Capital Fund/ML Funds	19.0	0.1	1.7	664	–9	6.50	0.60
		Merrill Lynch Tomorrow/ML Funds	—*	–7.1	0.7	628	–30	4.00r	*1.87*
		Merrill Lynch Natural Resources/ML Funds	—*	–12.1	6.5	745	–22	4.00r	*1.80*
		Merrill Lynch Retire Equity/ML Funds	—*	–3.6	1.4	561	–15	4.00r	*1.91*
•D	D	Merrill Lynch Special Value/ML Funds	—*	–11.3	0.9	110	–22	6.50	1.17p
		MetLife-State Street Cap Apprec/MetLife	—*	–3.5	0.7	30	26	4.50	*1.50p*
		MetLife-State Street Equity Inc/MetLife	—*	–2.5	5.9	30	–3	4.50	*1.50p*
		MetLife-State Street Equity Inv/MetLife	—*	–6.9	2.3	25	14	4.50	*1.50p*
		MFS Lifetime Capital Growth/Mass Finl	—*	–9.9	0.9	131	107	6.00r	*2.20*
		MFS Lifetime Dividends Plus/Mass Finl	—*	–8.2	6.7	145	66	6.00r	*2.18*

[illegible] maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling ne[illegible] p Net of partial absorption of expenses by fund sponsor. b Includes back end load that reverts to fun[illegible] NA Not applicable or not available. NM Not meaningful.

Table of distributors, showing addresses and phone numbers, begins on page 250.

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1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
		MFS Lifetime Emerging Growth/Mass Finl	—*	–14.1%	none	$80	58%	6.00%r	*$2.32*
		MFS Lifetime Managed Sectors/Mass Finl	—*	–13.4%	0.7	162	125	6.00r	*2.13*
		MFS Managed Sectors Trust/Mass Finl	—*	–14.8	1.2	150	–25	4.75	*1.48*
D	B	MidAmerica High Growth Fund/MidAmerica	12.9%	–5.3	2.9	12	–10	8.50	1.00p
D	A	MidAmerica Mutual Fund/MidAmerica	14.7	–4.7	3.7	35	–8	8.50	0.91
		Midas Gold Shares & Bullion/IRI	—*	–14.3	none	17	–2	6.00	*1.79p*
		Mimlic Investors Fund I/Mimlic	—*	–6.5	3.1	8	5	5.00	1.00p
		Monitrend Value Fund/Pallas	—*	–3.9	2.0	19	–35	3.50	*2.50p*
		Morgan Grenfell SmallCap Fund/closed end	—*	0.1	none	48	0	NA	2.38
		Morgan Keegan Southern Cap/Morgan Keegan	—*	–5.9	0.1	13	35	3.00	*2.00p*
		Morison Asset Allocation Fund/Morison	—*	–6.5	3.1	25	38	7.25	*1.72*
C	B	Mutual Benefit Fund/Mutual Benefit	16.3	–1.0	2.4	20	4	8.50	1.34
D	C	Mutual of Omaha Growth/Mutual of Omaha	13.0	–5.6	0.9	40	–10	8.00	1.11
		Mutual Series Fund–Beacon[1]/Heine Secs	—*	10.3	2.3	205	82	none	0.80
D	A+	Mutual Series–Mutual Shares/Heine Secs	21.3	9.3	3.5	2,222	17	none	0.69
•C	A+	Mutual Series Fund–Qualified/Heine Secs	—*	8.8	3.7	936	23	none	0.71
C	D	National Aviation & Technology/AFA	13.4	–14.9	1.2	71	–23	4.75	1.23p
D	D	National Growth Fund/National Secs	10.3	–10.3	2.5	58	–18	7.25	0.90
D	C	National Industries Fund/Sierra	11.2	–5.1	0.8	29	–11	none	1.65
		National Real Estate–Stock/National Secs	—*	–3.4	7.8	21	8	7.75	*1.43p*
D	B	National Stock Fund/National Secs	15.1	–5.0	4.6	222	–3	7.25	0.74
		National Telecom & Technology/AFA	—*	–6.3	1.1	44	–24	4.75	1.63p
D	B	Nationwide Fund/Nationwide	14.2	–6.9	3.6	401	–14	7.50	0.63
C	A	Nationwide Growth Fund/Nationwide	18.8	–1.7	4.6	228	–3	7.50	0.66
•F	•D	Nautilus Fund/Eaton Vance	—*	–13.4	none	16	–25	4.75	1.78p
B	D	Neuwirth Fund/National Finl	14.8	–5.8	none	26	–16	none	1.69
		New Alternatives Fund/Accrued Eq	—*	–0.3	1.1	5	30	5.66	1.17
		New Economy Fund/American Funds	—*	–3.2	2.3	744	–23	5.75	*0.73*
D	A	New England Equity Income/New England	16.2	–6.0	2.3	51	6	6.50	*1.52p*
A	B	New England Growth Fund/New England	24.4	–7.7	none	487	3	6.50	*1.28*
B	B	New England Retire Equity/New England	18.5	–13.9	0.6	143	–6	6.50	*1.30*
A	B	New York Venture Fund/Venture	22.0	–0.9	2.7	166	–28	8.50	1.01
B	D	[illegible] Growth Fund/Newton	16.8	–10.6	1.3	38	–21	none	*1.20*
A	D	[illegible]re Corp/closed end	17.1	–6.1	2.2	193	–11	NA	1.00
		[illegible]tegate Growth Equity/closed end	—*	–7.1	none	87	–10	NA	1.25
[illegible]	D	[illegible] Nicholas	21.6	0.6	3.2	1,148	–11	none	0.86

[illegible] $2 million in net assets and if open end is at least 12 months old a fund is dropped when its assets fall below $2 million. Stoc[illegible] Long term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months income dividends divided by 6/30/88 ne[illegible] assets. [illegible] *Expense ratio is in italics if the fund has a shareholder paid 12b-1 plan exceeding 0.1% (hidden load) pending o[illegible] in force.* • [illegible] maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new share[illegible] p Net of [illegible] sponsor. b Includes back end load that reverts to fund. r Includes back end load that reverts to distributo[illegible] NA Not appl[illegible] Mutual Beacon Growth Fund.

Table of distributors, showing addresses and phone numbers, begins on page 250.

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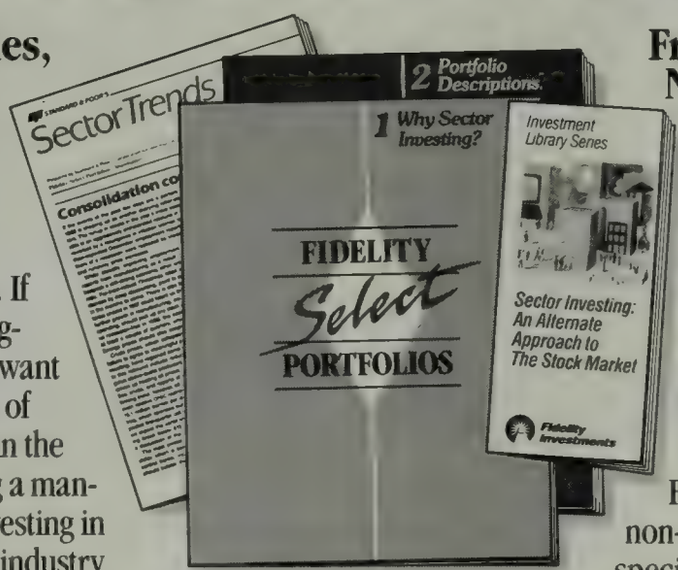

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1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
		Nicholas II/Nicholas	—*	0.1%	1.8%	$396	–3%	none	$0.82
		Nicholas Limited Edition/Nicholas	—*	11.9	0.8	28	317	none	1.48
•A	D	Northeast Investors Growth/Northeast Inv	—*	–16.9	0.5	20	–32	none	1.60
•C	C	Nova Fund/Nova	—*	–12.5	none	14	–57	4.50%r	1.70
		Oberweis Emerging Growth/Oberweis	—*	–9.4	none	22	4	5.00b	*1.99*
D	B	Old Dominion Investors' Trust/Investors Secs	13.7%	–9.4	3.1	6	–19	8.50	1.10
		Olympic Trust–Equity Income/Olympic	—*	–2.8	4.2	29	NM	none	*1.00*
		Olympic Trust–Small Cap Fund[1]/Olympic	—*	–6.0	none	8	–5	none	1.00
B	D	Omega Fund/Intl Heritage	14.5	–5.4	0.0	35	–7	6.75	*1.99*
C	D	One Hundred Fund/Berger	14.1	–2.7	none	11	–11	none	*1.83*
D	B	One Hundred One Fund/Berger	12.6	–11.6	5.0	2	–38	none	*1.79*
		Oppenheimer Blue Chip Fund/Oppenheimer	—*	–7.0	3.4	18	5	4.75	*1.34*
•B	D	Oppenheimer Directors Fund/Oppenheimer	—*	–3.9	2.8	163	–19	8.50	1.15
C	B	Oppenheimer Equity Income/Oppenheimer	18.4	2.0	5.6	807	10	8.50	0.84
B	F	Oppenheimer Fund/Oppenheimer	12.5	–12.2	2.0	213	–22	8.50	1.00
		Oppenheimer Gold & Special/Oppenheimer	—*	33.2	2.8	107	40	8.50	1.35
		Oppenheimer Ninety Ten Fund/Oppenheimer	—*	43.5	4.3	30	NM	7.75	1.38
		Oppenheimer OTC Fund/Oppenheimer	—*	0.7	0.3	36	14	4.75	*1.42*
F	A+	Oppenheimer Premium Inc/Oppenheimer	13.6	18.0	2.1	323	–12	8.50	1.16
		Oppenheimer Regency Fund/Oppenheimer	—*	–5.2	1.0	146	–18	8.50	1.11
D	C	Oppenheimer Special Fund/Oppenheimer	16.1	–1.0	7.4	553	–20	8.50	0.94
•C	•C	Oppenheimer Target Fund/Oppenheimer	—*	–8.0	1.2	73	–36	4.75	1.16
A	C	Oppenheimer Time Fund/Oppenheimer	20.8	–2.6	1.7	318	–8	8.50	0.99
C	C	Oppenheimer Total Return/Oppenheimer	14.2	4.3	4.5	312	11	4.75	*0.88*
C	B	Over-the-Counter Securities Fund/Review	18.6	–6.7	0.6	287	–6	4.50	*1.00*
		Pacific Horizon–Aggres Grow/Concord Finl	—*	–13.0	0.7	127	–47	4.50	*1.21*
		PaineWebber America Fund/PaineWebber	—*	–4.8	4.0	67	–35	8.50	1.22
		PaineWebber Asset Allocation/PaineWebber	—*	7.2	5.5	675	–6	5.00r	*1.98*
		PaineWebber Master Growth/PaineWebber	—*	–5.5	0.0	91	–30	5.00r	*2.05*
		PaineWebber Olympus Fund/PaineWebber	—*	–5.8	0.7	80	–37	8.50	1.15
		Paribas Trust–Quantus Equity/Paribas	—*	–10.9	1.6	12	–36	4.00r	*2.34*
		Parnassus Fund/Parnassus	—*	–2.0	none	8	36	3.50	2.13
C	A	Partners Fund/Neuberger	20.6	–2.9	4.2	719	–5	none	0.86
		Pasadena Growth Fund/Pasadena	—*	–3.3	none	14	1	3.00	2.00
		PBHG Growth Fund/Capstone	—*	–4.2	none	31	11	4.75	1.21
[illegible]	B	Penn Square Mutual Fund/Penn Square	15.4	–8.1	3.7	195	–16	none	0.88

[illegible] added to this list if it has at least $5 million in net assets and, if open end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. St[illegible] in operation since 7/31/82. Long term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 [illegible] as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder paid 12b-1 plan exceeding 0.1% (hidden load) pending* [illegible] maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shar[illegible] discrepancy of expenses by fund sponsor. b Includes back end load that reverts to fund. r Includes back end load that reverts to distributor. NA: [illegible] NM: Not meaningful. [1]Formerly Olympic Trust Series B.

Table of distributors, showing addresses and phone numbers, begins on page 250.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**16.9%**	**–6.9%**	**3.3%**				
		FORBES stock fund composite	**16.4%**	**–5.6%**	**2.7%**				**$1.49**
C	B	**Pennsylvania Mutual Fund/Penn Mutual**	19.9%	6.6%	2.9%	$358	–1%	1.00%b	$0.99
		Permanent Port–Permanent/Permanent	—*	1.6	none	103	18	none	*1.15*
B	D	**Petroleum & Resources Corp/closed end**	15.2	–9.3	4.7	286	–14	NA	0.70
D	C	**Philadelphia Fund/Fahnestock**	14.7	–3.8	2.1	97	–15	8.50	0.91
•B	•A	**Phoenix Growth Fund/Phoenix**	—*	–4.0	5.3	587	12	8.50	0.76
•A	•B	**Phoenix Stock Fund/Phoenix**	—*	–2.6	4.5	131	3	8.50	0.76
•D	•B	**Phoenix Total Return/Phoenix**	—*	–4.3	3.2	36	96	4.75	*1.54p*
		Pierpont Capital Appreciation/Morgan Stanley	—*	–13.7[1]	3.4[1]	31[2]	–28	none	1.00p
		Pierpont Equity Fund/Morgan Stanley	—*	–7.8[1]	none[1]	25[2]	–17	none	1.00p
C	A	**Pilgrim MagnaCap Fund/Pilgrim**	17.6	–6.5	1.3	210	–14	4.75	*1.40p*
		Pilgrim Regional Bankshares/closed end	—*	1.4	2.4	97	–1	NA	1.13
		Pilgrim Rising Profitability Fund/Pilgrim	—*	–14.6	none	8	–30	4.75	*2.07*
D	C	**Pine Street Fund/National Finl**	14.0	–10.0	3.6	55	–22	none	1.47
C	C	**Pioneer Fund/Pioneer**	16.0	–1.3	3.0	1,439	–9	8.50	0.70
B	B	**Pioneer II/Pioneer**	18.5	–4.3	2.6	3,808	–6	8.50	0.81
		Pioneer Three/Pioneer	—*	–2.1	2.7	632	–11	8.50	0.80
		T Rowe Price Capital Appreciation/Price	—*	10.2	3.3	88	8	none	1.20p
		T Rowe Price Equity Income Fund/Price	—*	7.2	4.5	331	50	none	1.10p
		T Rowe Price Growth & Income/Price	—*	–3.0	4.6	426	–10	none	1.05p
C	D	**T Rowe Price Growth Stock Fund/Price**	13.1	–8.7	2.2	1,424	–9	none	0.79
		T Rowe Price New America Growth/Price	—*	–4.5	none	71	–27	none	1.49p
A	D	**T Rowe Price New Era Fund/Price**	19.2	2.0	3.0	857	12	none	0.82
B	D	**T Rowe Price New Horizons Fund/Price**	16.1	–6.8	0.3	1,005	–17	none	0.78
		Primary Trend Fund/Primary Trend	—*	5.7	3.0	45	43	none	1.20p
		Principal Preservation–Div Achievers/Ziegler	—*	–3.3	2.8	7	–10	4.50	1.10p
		Principal Preservation–Retirement/Ziegler	—*	2.2	4.9	5	194	4.50	1.10p
		Principal Preservation–S&P 100 Plus/Ziegler	—*	–7.4	2.8	17	1	4.50	1.30p
C	A	**Princor Capital Accumulation/Princor**	17.1	–2.4	2.2	97	4	5.00	0.98
B	D	**Princor Growth Fund/Princor**	15.7	–7.3	1.1	34	–7	5.00	1.01
		Progressive Income Equity/Federated	—*	2.4	8.3	51	–6	4.50	1.56p
•B	•B	**Pru-Bache Equity Fund/Pru-Bache**	—*	–5.3	2.4	567	1	5.00r	*1.67*
		Pru-Bache Equity Income/Pru-Bache	—*	–3.6	2.7	64	–27	5.00r	*2.30p*
•B	•C	**Pru-Bache Growth Opportunity/Pru-Bache**	—*	–4.9	0.4	149	–17	5.00r	*1.56p*
		Pru-Bache Option Growth Fund/Pru-Bache	—*	–4.1	1.9	74	–15	5.00r	*1.69p*
		Pru-Bache Research Fund/Pru-Bache	—*	–8.4	1.7	418	–12	5.00r	*1.81*
•D	•A	**Pru-Bache Utility Fund/Pru-Bache**	—*	4.3	4.8	1,464	–13	5.00r	*1.63*

stock fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. Stock nds are graded only if in operation since 7/31/82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 net set value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or force.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not plicable or not available. [1]12 months to 5/31/88. [2]As of 5/31/88. Fund refuses to disclose current data.

able of distributors, showing addresses and phone numbers, begins on page 250.

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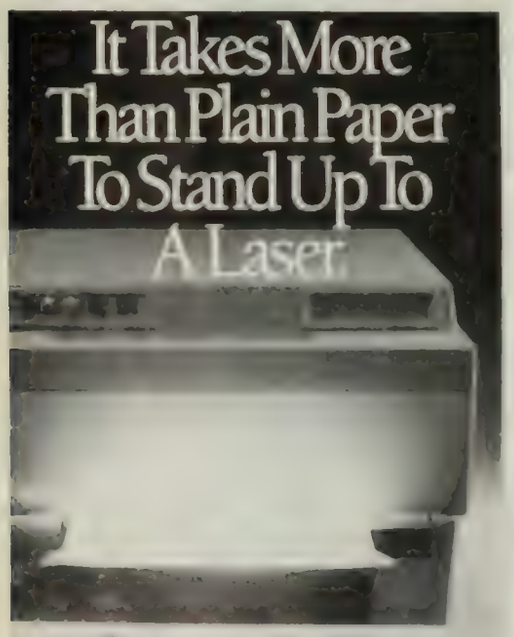

1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield
		Standard & Poor's 500 stock average	**16.9%**	**–6.9%**	**3.3%**
		FORBES stock fund composite	**16.4%**	**–5.6%**	**2.7%**
		Putnam Capital Fund/Putnam	—*	–4.6%	none
•D	F	Putnam Energy-Resources Trust/Putnam	—*	–3.0	3.0%
C	B	Putnam Fund for Growth & Inc/Putnam	17.8%	–3.2	6.5
•A	•D	Putnam Health Sciences Trust/Putnam	—*	–9.6	0.6
		Putnam Information Sciences/Putnam	—*	–10.3	none
B	D	Putnam Investors Fund/Putnam	16.2	–11.0	3.7
D	B	Putnam Option Income Trust/Putnam	12.3	–6.4	4.7
		Putnam Option Income Trust II/Putnam	—*	–3.7	1.9
		Putnam OTC Emerging Growth/Putnam	—*	–0.3	none
A	B	Putnam Vista Basic Value/Putnam	20.2	–6.4	3.3
A	D	Putnam Voyager Fund/Putnam	20.1	–3.6	0.5
A+	D	Quasar Associates/Alliance	24.9	7.8	none
		Quest for Value Dual–Capital[1] Quest for Value Dual–Income	—*	2.3	3.3
•C	A+	Quest for Value Fund/Quest	—*	–0.7	0.6
		Regional Financial Shares Inv/closed end	—*	–8.4	3.2
		Reich & Tang Equity Fund/Reich & Tang	—*	2.9	2.4
		Reserve Equity–Contrarian/Resrv	—*	–18.9	4.5
		Rightime Fund/Lincoln Inv	—*	9.5	2.3
		RNC Regency Fund/Midvale	—*	–11.4	3.0
•F	•A	Rochester Tax Managed Fund/Rochester	—*	0.8	none
		Royce Fund–Value/Quest Dist	—*	3.5	1.4
		Royce Value Trust/closed end	—*	–1.7	3.8
		RPF of America–Equity Fund/Venture	—*	–5.4	0.5
		Rushmore–OTC Index Plus/Rushmore	—*	–6.3	0.9
		Rushmore–Stock Mkt Index Plus/Rushmore	—*	–8.1	4.4
C	C	Safeco Equity Fund/Safeco	15.0	–8.7	2.8
C	C	Safeco Growth Fund/Safeco	16.1	1.4	2.4
D	A	Safeco Income Fund/Safeco	16.7	–3.3	6.9
		St Clair Equity–Capital Growth/Fairfield	—*	–17.3[2]	none
		Salem Funds–Growth/Fiduciary Inv	—*	–6.0	2.0
		SBSF–Growth Fund/SBSF	—*	–4.1	3.7
		Scandinavia Fund/closed end	—*	–11.6	4.5
		Schafer Value Trust/closed end	—*	–9.8	3.5
		Schield–Aggressive Growth/Schield	—*	–5.4	none
		Schield–Value/Schield	—*	–0.8	0.3

A stock fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months o fund is dropped when its assets fall below $2 million. Stock funds are graded only if in operation s 7/31/82. Long term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income divide divided by 6/30/88 net asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics i fund has a shareholder paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* • Fund rated two periods only, maximum allowable grade A. *Fund not in operation for full period.

Table of distributors, showing addresses and phone numbers, begins on page 2

Assets 6/30/88 (millions)	Assets % change '88 vs '87	Maximum sales charge	Annual expenses per $100
			$1.49
$10	–24%	††	$1.15
108	–7	8.50%	1.42p
1,647	–3	8.50	0.64
255	–19	8.50	1.03
108	–25	8.50	1.23p
723	–29	8.50	0.61
1,063	–15	8.50	0.83
1,487	–17	8.50	0.78
154	3	6.75	*1.49p*
254	–4	8.50	1.05
590	3	8.50	1.20
100	–25	5.50	*1.33p*
403	–5	NA	1.06
88	–21	none	2.20
87	–10	NA	1.04
111	–8	none	1.11
8	–72	none	1.44p
250	18	none	*2.55*
18	–3	4.75	*2.10p*
16	–33	8.50	*1.82*
166	–1	1.00b,r	*1.88p*
111	–2	NA	0.40
17	–14	5.00r	*2.45*
13	323	none	1.00
12	–34	none	1.00
46	–31	none	0.98
75	–4	none	0.98
238	–18	none	0.98
6[3]	NA	none	1.13p
21	–17	none	*1.74*
82	–18	none	*1.18*
54	–26	NA	2.44
107	–14	NA	1.39
4	–42	4.00	*2.50p*
6	–5	4.00	*2.50p*

††Closed to new investors. p: Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not applicable or not available. [1]Dual fund. Performance, asset and expense data on capital and income shares treated as a unit. [2]Six months to 1/31/88. [3]As of 1/31/88. Fund refuses to disclose current data.

12.49%* CURRENT YIELD

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8.9% and 14.8% are the 1-year and average annual 42-month total returns respectively for the periods ended 6/30/88. *Average annualized yield for the 30 days ended 7/31/88. Yield and total return represent past performance. Yield and share price will vary, and shares may be worth more or less at redemption than at original purchase. T. Rowe Price Investment Services, Inc., Distributor.

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*Lipper Directors' Analytical Data, Spring '88

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Valley Forge, Pennsylvania 19482

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Address
City
State Zip
FB-G8-249

THE Vanguard GROUP OF INVESTMENT COMPANIES

1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
		Sci/Tech Holdings/ML Funds	—*	–2.9%	none	$219	–26%	6.50%	$1.29
C	C	Scudder Development Fund/Scudder	16.7%	–5.4	none	357	–8	none	1.29
B	C	Scudder Equity–Capital Growth/Scudder	19.2%	–0.1	1.3%	500	–8	none	0.92
		Scudder Equity–Equity Income/Scudder	—*	–6.9	3.8	14	241	none	1.00
B	C	Scudder Growth & Income Fund/Scudder	15.4	–4.9	3.8	409	–13	none	0.89
•B	•C	Second Fiduciary Exchange Fund/‡	—*	–11.3	1.7	62	–17	none	0.77
		Security Action Fund/Security Dist	—*	–7.5	1.8	146	24	**	0.81
A	D	Security Equity Fund/Security Dist	16.6	–7.0	5.0	230	–17	8.50	0.74
D	C	Security Investment Fund/Security Dist	12.3	–7.2	6.3	87	–21	8.50	0.84
		Security Omni Fund/Security Dist	—*	–16.5	none	19	–16	8.50	2.31
A	D	Security Ultra Fund/Security Dist	17.9	–14.4	2.4	77	–23	8.50	1.02
D	A	Selected American Shares/Prescott	15.4	–3.3	2.1	280	–7	none	*1.11*
C	D	Selected Special Shares/Prescott	13.3	–4.9	0.8	37	–11	none	*1.10*
A	D	Seligman Capital Fund/Seligman	18.9	–17.0	none	141	–40	4.75	0.83
B	B	Seligman Common Stock Fund/Seligman	17.4	–8.0	3.6	550	–13	4.75	0.60
		Seligman Commun & Info/Seligman	—*	–5.8	none	44	–17	4.75	1.70
B	D	Seligman Growth Fund/Seligman	14.6	–11.3	1.8	551	–23	4.75	0.62
C	A	Sentinel Common Stock Fund/Equity Svcs	17.2	–10.1	3.7	501	–17	8.50	0.62
A	D	Sentinel Growth Fund/Equity Svcs	18.3	–12.9	2.1	53	–19	8.50	0.76
B	D	Sentry Fund/Sentry	15.6	–10.5	1.9	43	–14	8.00	0.67
D	A+	Sequoia Fund/Ruane	19.6	–2.1	3.7	727	–9	††	1.00
		Shearson Lehman Aggres Grow/Shearson	—*	–6.8	none	95	–32	5.00	1.10
A	B	Shearson Lehman Appreciation/Shearson	21.6	–5.1	2.2	453	–12	5.00	0.93
•D	•B	Shearson Lehman Fundamental/Shearson	—*	–4.0	4.2	84	–23	5.00	1.20
		Shearson Lehman Multi Oppor LP/Shearson	—*	9.3	none	440	–15	3.00r	*3.00*
		Shearson Lehman–Equity Growth/Shearson	—*	3.8	2.2	143	–20	5.00b,r	*2.12*
		Shearson Lehman–Equity Plus/Shearson	—*	–10.1	3.5	29	–13	5.00b,r	*2.63*
		Shearson Lehman–Option Income/Shearson	—*	1.8	1.6	597	–37	5.00r	*1.74*
		Shearson Lehman–Strategic Inv/Shearson	—*	1.5	3.1	146	–17	5.00r	*2.14*
D	F	Sherman, Dean Fund/Sherman, Dean	6.1	–21.6	none	3	–18	none	*2.75*
A	B	Sigma Capital Shares/Sigma	19.3	–4.9	2.3	92	–7	6.00	*1.12*
[illegible]	B	Sigma Investment Shares/Sigma	16.5	–5.1	2.9	91	–10	6.00	*0.92*
B	[illegible]	Sigma Special Fund/Sigma	17.4	–8.2	1.4	19	–11	6.00	*1.35*
B	D	Sigma [illegible] Shares[1]/Sigma	12.8	–12.8	1.7	13	–36	6.00	*1.91*
B	[illegible]	Sigma [illegible] Shares/Sigma	15.2	–19.9	0.0	59	–22	6.00	*1.18*
		[illegible] Growth Fund/Sit	—*	–8.4	0.1	48	–14	none	1.16

A stock fund is added to the [illegible] in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. Stock funds are graded only [illegible] term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 net asset value; it may differ from [illegible] *Expense ratio is in italics if the fund has a shareholder paid 12b-1 plan exceeding 0.1% (hidden load) pending [illegible] in force.* ● Fund rated for two [illegible] allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. **Closed to new investors. [illegible] through monthly contractual plan. p Net of partial absorption of expenses by fund sponsor. b Includes back-end load that reverts to fund. r Includes back-end load that reverts to distributor. NA Not applicable or not available. [1]Formerly Greenway Fund.

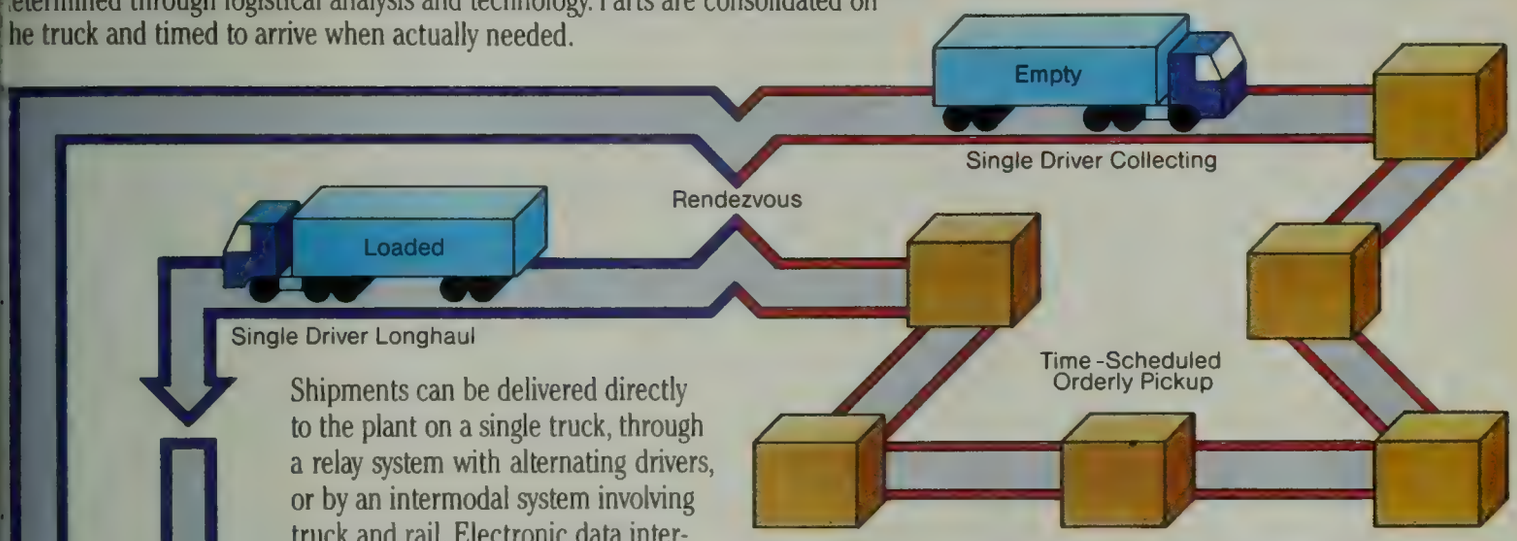
Table of distributors, showing addresses and phone numbers, begins on page 250.

How Leaseway helps major auto manufacturers reduce costs through integrated logistics.

With the continual need to reduce costs and improve productivity, auto manufacturers are looking for innovative approaches to integrated logistics concepts.

Case in point. The inbound transportation and distribution of parts from auto suppliers to assembly plants has become very costly and increasingly difficult for auto manufacturers to manage.

The solution. Working with plant personnel and suppliers, Leaseway designs integrated systems utilizing dedicated orderly pickup on a just-in-time basis. Production requirements are defined, and optimum routing and scheduling for the transportation of materials are determined through logistical analysis and technology. Parts are consolidated on the truck and timed to arrive when actually needed.

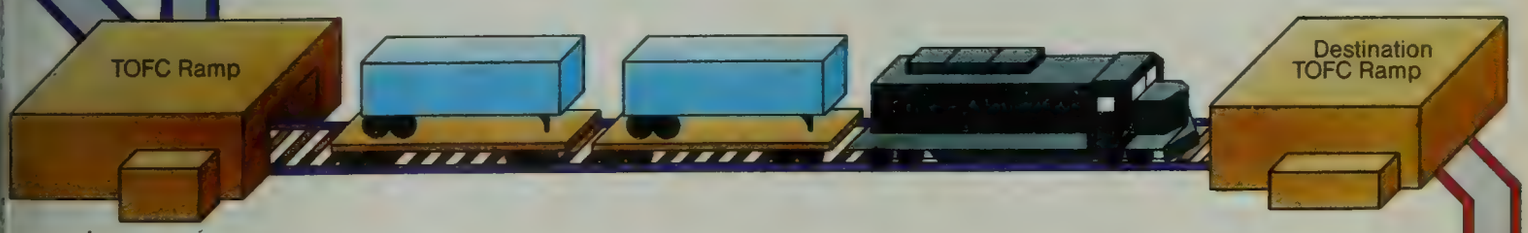


Shipments can be delivered directly to the plant on a single truck, through a relay system with alternating drivers, or by an intermodal system involving truck and rail. Electronic data interchange capabilities make it possible for information to parallel the movement of materials.

The result. By integrating all elements in the supply chain, auto manufacturers can realize significant cost savings and productivity improvements.

Inventory costs are reduced. So are costs for premium freight, in-plant storage space and material handling. Productivity is improved through balanced trailer arrival schedules and timely receipt of data for each inbound shipment.

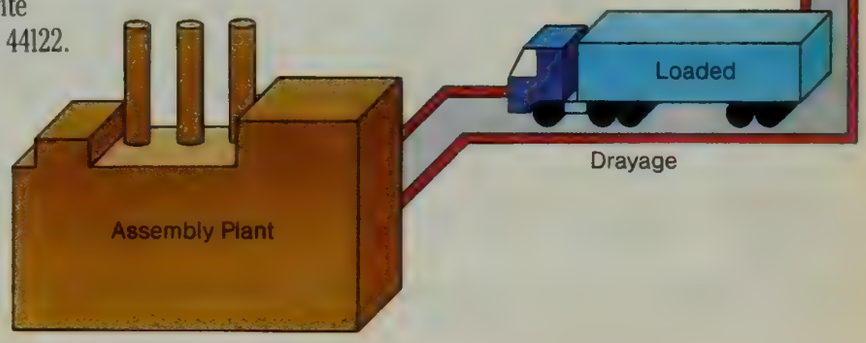
The conclusion. In addition to providing a full range of transportation and distribution services for auto manufacturers such as General Motors, Ford, Chrysler, Mazda, Toyota, and Mercedes-Benz, Leaseway also works with hundreds of companies in a variety of industries. If you're looking for ways to reduce costs and improve productivity in your business, we can help with our innovative and integrated logistics concepts.



Helping your business. Leaseway will analyze your entire distribution system, or any part of it. And recommend a cost-effective solution that's custom-tailored to your unique needs.

To see how a working relationship with Leaseway can help make your business more cost-effective, call Charles B. Lounsbury, Senior VP, at 1-800-428-0042. In Ohio, 1-800-428-0028. Or write Leaseway Transportation, 3700 Park East Drive, Cleveland, OH 44122.

Call 1-800-428-0042.



Leaseway Transportation.

Leaseway Transportation is a group of companies providing high-quality, cost-effective, physical distribution services to manufacturers, distributors, and retailers.

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1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expens per $1
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES stock fund composite	16.4%	–5.6%	2.7%				$1.49
		Sit New Beginning Income & Growth/Sit	—*	–6.4%	2.9%	$12	18%	none	$1.50
		Skyline Fund–Special Equities/Mesirow	—*	3.6	none	9	141	3.85%	1.60
B	C	Smith Barney Equity Fund/Smith Barney	16.9%	–7.6	3.7	83	–8	4.00	*0.80*
D	A	Smith Barney–Income & Grow/Smith Barney	17.6	–2.5	5.8	566	–14	5.75	0.45
		Sound Shore Fund/Reich & Tang	—*	–4.4	1.5	27	–13	none	1.36
D	A+	Source Capital/closed end	21.3	2.5	6.0	293	–5	NA	0.96
		Southeastern Asset Mgmt Value/Southeastern	—*	—*	0.8	31	60	none	1.50
		Southeastern Growth Fund/Wheat First	—*	–7.3	none	105	–12	5.00r	*2.18*
D	A	Sovereign Investors/Sovereign	16.6	–5.1	5.2	44	–1	5.00	0.85
A	D	Spectra Fund/closed end	21.2	–7.3	none	4	–42	NA	2.40
C	D	State Bond Common Stock Fund/State Bond	12.4	–13.5	1.9	29	–20	8.50	0.94
D	B	State Bond Diversified Fund/State Bond	14.8	–3.3	3.7	19	–6	8.50	0.84
C	D	State Bond Progress Fund/State Bond	14.8	–11.8	1.9	7	–18	8.50	1.07
B	C	State Street Exchange Fund/‡	15.7	–9.1	2.6	155	–15	none	0.59
B	C	State Street Growth Fund/‡	16.3	–8.9	3.6	242	–19	1.00r	0.55
B	C	State Street Investment Corp/State Street	16.0	–9.8	2.9	518	–20	1.00b	0.46
F	F	Steadman American Industry/Steadman	1.1	–25.1	none	5	–30	none	*6.26*
F	C	Steadman Associated Fund/Steadman	3.1	–27.0	4.9	14	–29	none	*2.88*
F	D	Steadman Investment Fund/Steadman	3.1	–26.2	1.1	6	–35	none	*3.97*
F	F	Steadman Oceanographic/Steadman	–0.2	–42.0	none	3	–46	none	*5.81*
A+	F	SteinRoe Equity–Capital Oppor/Stein Roe	18.0	–16.2	0.2	236	–26	none	1.05
		SteinRoe Equity–Discovery Fund/Stein Roe	—*	–7.0	0.2	50	–24	none	1.50
		SteinRoe Equity–Prime Equities/Stein Roe	—*	–11.1	1.6	25	82	none	1.00
•A	C	SteinRoe Equity–Special Fund/Stein Roe	—*	–3.3	1.5	240	–12	none	0.99
A	D	SteinRoe Equity–Stock Fund[1]/Stein Roe	15.4	–18.0	1.5	213	–31	none	0.72
•B	D	SteinRoe Equity–Universe Fund/Stein Roe	—*	–12.7	1.9	27	–71	none	1.50
•F	•C	Strategic Capital Gains/Strategic	—*	0.3	none	4	3	8.50	1.58
A+	[illegible]	Strategic Investments Fund/Strategic	10.5	–39.8	8.7	56	–48	8.50	1.38
		Strategic Silver Fund/Strategic	—*	–17.4	none	31	–15	8.50	1.48
D	C	Stratton Growth Fund/Stratton	14.7	–0.7	3.4	18	–11	none	1.48
F	A+	Stratton Monthly Dividend Shares/Stratton	11.2	–1.9	7.6	36	–19	none	1.21
		Strong Opportunity Fund/Strong	—*	–2.7	2.5	174	4	2.00	1.40
		[illegible] Investor's Fund/AIM	—*	–10.4	0.9	146	31	**	0.98
B	D	[illegible]/Alliance	16.0	0.0	none	94	–12	5.50	*1.54*
A	[illegible]	Techn[illegible] Kemper	17.5	–6.6	1.2	570	–19	8.50	0.67
		[illegible] Plumb/Thompson, Unger	—*	0.8	0.9	6	100	none	2.00

A stock fund is added [illegible] million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. Sto funds are graded only [illegible] Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 r asset value; it may differ from [illegible] SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending in force.* • Fund rated [illegible] maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling ne shares. **Available only th[illegible] plan. p Net of partial absorption of expenses by fund sponsor. b Includes back-end load that reverts to fund. Includes back-end load that reverts to distributor. NA: Not applicable or not available. [1]Formerly Stein Roe & Farnham Stock Fund.

Table of distributors, showing addresses and phone numbers, begins on page 250.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**16.9%**	**–6.9%**	**3.3%**				
		Forbes stock fund composite	**16.4%**	**–5.6%**	**2.7%**				**$1.49**
		Thomson McKinnon Inv–Grow/Thomson	—*	–7.8%	0.7%	$358	–15%	5.00%r	*$1.80*
		Thomson McKinnon Inv–Oppor/Thomson	—*	0.5	0.2	53	–19	5.00r	*2.00*
		Tocqueville Fund/Tucker Anthony	—*	–2.1	0.2	16	61	4.00	*2.30*
B	C	**Tri-Continental Corp/closed end**	16.6%	–9.8	3.2	1,343	–16	NA	0.53
A	C	**Tudor Fund/Weiss, Peck**	21.5	–9.9	0.1	178	–16	none	1.03
		20th Century Giftrust Investors/20th Century	—*	0.5	none	14	26	none	1.00
A+	D	**20th Century Growth Investors/20th Century**	25.5	–11.4	0.3	1,358	–4	none	1.00
A+	C	**20th Century Select Investors/20th Century**	24.1	–9.5	1.7	2,553	–14	none	1.00
•A	•D	**20th Century Ultra Investors/20th Century**	—*	–4.2	none	297	–18	none	1.00
		20th Century Vista Investors/20th Century	—*	–8.3	none	241	–13	none	1.00
		UMB Stock Fund/Jones & Babson	—*	–1.4	4.9	43	1	none	0.87
•C	•C	**Unified Growth Fund/Unified**	—*	–12.1	1.4	19	–34	none	1.06
D	B	**Unified Mutual Shares/Unified**	13.4	–5.2	3.7	18	–23	none	1.03
C	B	**United Accumulative Fund/Waddell & Reed**	17.8	–2.5	5.1	743	–10	8.50	0.59
D	A	**United Income Fund/Waddell & Reed**	17.1	3.5	4.3	1,107	4	8.50	0.63
		United New Concepts Fund/Waddell & Reed	—*	–5.8	1.0	99	–5	8.50	1.19p
C	C	**United Science & Energy Fund/Waddell & Reed**	16.9	–4.8	2.6	227	–6	8.50	0.81
•D	•C	**United Services–Good & Bad/United Services**	—*	–15.5	4.5	17	–54	none	1.41
		United Services–Growth Fund/United Services	—*	–11.0	1.5	6	–32	none	2.07
		United Services–New Prosp/United Services	—*	–21.3	1.4	104	–18	2.00	1.44p
B	D	**US Trend Fund/Capstone**	17.1	–7.1	2.6	91	–15	4.75	1.08
B	A	**United Vanguard Fund/Waddell & Reed**	22.8	2.8	3.0	683	5	8.50	0.93
		US Boston Invest–Growth & Inc[1]/US Boston	—*	–5.2	3.0	27	–23	1.00r	1.83
		USAA Investment–Cornerstone/USAA	—*	–5.8	2.1	589	23	none	1.23
		USAA Investment–Gold Fund/USAA	—*	–30.1	0.5	189	5	none	1.43p
•C	D	**USAA Mutual–Growth Fund/USAA**	—*	–9.4	3.1	218	–15	none	1.29p
		USAA Mutual–Income Stock/USAA	—*	1.6	3.3	30	300	none	1.00p
•B	•D	**USAA Mutual–Sunbelt Era Fund/USAA**	—*	–6.7	0.7	145	–4	none	1.12
		UST Master Funds–Equity/Boston Co	—*	–9.4	1.1	14	–6	none	1.28
		UST Master Funds–Inc & Grow/Boston Co	—*	–4.3	5.0	7	31	none	1.29p
F	A+	**Valley Forge Fund/Valley Forge**	15.0	4.0	5.7	9	1	none	1.30
		Value Line Convertible Fund/Value Line	—*	–2.7	6.3	67	–27	none	1.06
B	C	**Value Line Fund/Value Line**	16.8	–4.3	1.9	215	–16	none	0.69
D	A	**Value Line Income Fund/Value Line**	16.2	–4.8	9.1	142	–22	none	0.76
B	B	**Value Line Leveraged Growth Inv/Value Line**	18.5	–9.5	1.5	288	–31	none	0.95
C	D	**Value Line Special Situations/Value Line**	13.4	–16.3	0.5	135	–36	none	1.01

stock fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. Stock unds are graded only if in operation since 7/31/82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 net sset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or n force.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. : Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not pplicable or not available. [1]Formerly US Boston Investment—Boston I.

Table of distributors, showing addresses and phone numbers, begins on page 250.

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1988 Fund Ratings/Stock

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%
		FORBES stock fund composite	16.4%	–5.6%	2.7%
		Van Eck Gold/Resources Fund/Van Eck	—*	–18.2%	0.4%
		Van Kampen Merritt Gr & Inc/Van Kampen	—*	–4.0	3.8
B	C	Vance, Sanders Exchange Fund/‡	16.5%	–4.9	1.8
D	C	Vance, Sanders Special Fund/Eaton Vance	12.6	–11.6	0.5
C	C	Vanguard Explorer Fund/Vanguard	16.1	–3.1	0.4
		Vanguard Explorer II/Vanguard	—*	–6.4	0.2
		Vanguard Gemini II Capital[1] Vanguard Gemini II Income[1]	—*	2.5	5.1
D	A+	Vanguard High Yield Stock/Vanguard	21.0	3.0	10.5
B	C	Vanguard Index–500 Portfolio/Vanguard	16.4	–7.5	3.2
B	C	Vanguard WL Morgan Growth/Vanguard	17.8	–0.4	1.8
D	D	Vanguard Naess & Thomas Spec/Vanguard	13.6	–6.6	none
		Vanguard PRIMECAP Fund/Vanguard	—*	–6.0	0.8
		Vanguard Quantitative Portfolios/Vanguard	—*	–6.2	3.0
		Vanguard Special–Technology/Vanguard	—*	–13.1	1.1
		Vanguard Special–Energy/Vanguard	—*	–8.3	5.2
		Vanguard Special–Health Care/Vanguard	—*	–3.9	1.9
		Vanguard Spec–Service Economy/Vanguard	—*	–17.6	3.6
•B	B	Vanguard Trustees Comm–US/Vanguard	—*	–3.9	3.1
C	A+	Vanguard Windsor Fund/Vanguard	21.3	2.5	6.4
		Vanguard Windsor II/Vanguard	—*	–3.7	4.9
		Vanguard World–US Growth/Vanguard	—*	–5.9	4.1
D	B	Variable Stock Fund/Variable	13.0	–8.1	2.5
		Viking Equity Index Fund–General/Fairfield	—*	–8.8	2.3
C	D	Wall Street Fund/Wall Street	12.3	–7.0	0.3
C	A	Washington Mutual Investors/Amer Funds	18.9	–3.5	4.1
		Wealth Monitors Fund/Michael W Lamb	—*	–25.6	0.9
A+	D	Weingarten Equity Fund/AIM	24.3	–5.6	0.1
		Weitz Value Fund/Weitz	—*	8.2	3.1
		Westwood Fund/Dreyfus	—*	–4.1	2.4
		Winthrop Focus Funds–Growth/Natl Finl	—*	–8.7	0.5
		World Wide Value Fund/closed end	—*	–7.8	0.5
A	C	WPG Fund/Weiss, Peck	19.3	–5.5	0.9
		WPG Growth Fund/Weiss, Peck	—*	–12.7	none
		Z-Seven Fund/closed end	—*	–20.2	none
		Zweig Fund/closed end	—*	10.5	8.5

A stock fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old. A fund is dropped when its assets fall below $2 million. Stock funds are graded only if in operation since 1981-82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income divided by 6/30/88 net asset value, it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* • Fund rated two periods only, maximum allowable grade A.

Table of distributors, showing addresses and phone numbers, begins on page 2

Assets 6/30/88 (millions)	Assets % change '88 vs '87	Maximum sales charge	Annual expenses per $100
			$1.49
250%	$54	7.50%	*$1.27p*
38	21	4.90	*1.25*
152	–13	none	0.69
62	–27	4.75	1.05
267	–8	††	0.72
69	2	none	0.62
292	–7	NA	0.56
161	–16	††	0.50
957	6	none	0.26
691	–6	none	0.46
29	–14	none	0.92
198	–16	none	0.83
154	–10	none	0.64
20	–30	1.00b	0.39
41	–31	1.00b	0.38
60	–17	1.00b	0.51
23	–55	1.00b	0.44
121	–33	none	0.52
5,689	–5	††	0.43
1,402	–10	none	0.49
141	–26	none	0.65
5	–11	none	1.40
10	–12	none	1.34
13	2	5.50	1.93p
2,726	–5	5.75	*0.58*
4	–36	none	*3.54p*
312	21	4.75	1.00
10	27	none	1.50
36	19	4.00	NA
54	–18	4.00r	*1.48p*
58	–15	NA	2.10
41	–14	none	1.19
135	–12	none	1.00
21	–28	NA	3.23p
360	–3	NA	1.51

*Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. ††Closed to new investors. p: Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not applicable or not available. [1]Dual fund. Performance, asset and expense data on capital and income shares treated as a unit.

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THE Vanguard GROUP OF INVESTMENT COMPANIES

Balanced funds

Balanced funds mix stocks with bonds or buy convertible bonds. Balanced funds are graded separately from stock funds, but over the same market cycles (see chart, page 172). Balanced funds tend to be stodgier than stock funds, with a lower long-term average return, but they haven't suffered as muc in the recent crash. For more information about a fun contact the distributor listed after the name; the list distributor addresses and phone numbers begins on page 25

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $100
		Standard & Poor's 500 stock average	**16.9%**	**–6.9%**	**3.3%**				
		Forbes balanced fund composite	**14.6%**	**–1.3%**	**5.8%**				**$1.30**
		Adtek Fund/Adtek	—*	–20.9%	3.3%	$24	–39%	none	$1.73
		Advantage Income Fund/Advest	—*	–1.2	6.1	60	–10	4.00%r	*1.98*
•D	D	**Aim Convertible Securities/AIM**	—*	–8.5	7.6	19	–30	4.75	*2.32p*
C	B	**Alliance Balanced Shares/Alliance**	15.1%	5.7	3.5	117	–3	5.50	*1.37*
		Alliance Convertible Fund/Alliance	—*	0.1	6.7	88	–21	5.50	*1.49p*
C	B	**American Balanced Fund/American Funds**	14.5	0.6	6.0	215	7	5.75	0.68
A	B	**American Capital Convert Secs/closed end**	18.6	2.2	7.4	77	–14	NA	0.76
A	D	**American Capital Harbor Fund/American Cap**	15.9	–5.1	6.7	372	–11	8.50	0.60
B	D	**Axe-Houghton Fund B/Axe Securities**	13.2	–9.7	6.0	165	–19	none	*1.18*
B	D	**Bancroft Convertible Fund/closed end**	14.4	5.4	5.3	39	–37	NA	2.40
		Bascom Hill Balanced Fund/Madison	—*	4.4	3.0	8	121	5.00r	*2.00*
		BB&K Diversa Fund/Bailard	—*	0.9	3.3	108	45	none	NA
		Bruce Fund/Bruce	—*	–4.9	3.9	5	–33	none	1.60
		Calvert Social Inv–Managed Grow/Calvert	—*	0.7	3.7	168	8	4.50	*1.36*
D	A	**Castle Convertible Fund/closed end**	13.5	–3.4	13.2	50	–18	NA	1.22
		Claremont Fund-Combined/Claremont Finl	—*	–0.5	2.0	16	4	††	*2.10p*
		Colonial Advanced Strategies Gold/Colonial	—*	–6.5	1.0	101	10	6.75	1.45p
B	C	**Colonial Fund/Colonial**	15.6	2.5	4.8	257	–3	6.75	0.97
C	C	**Composite Bond & Stock Fund/Murphey Favre**	13.5	2.7	5.7	77	–16	4.00	*1.69*
		Convertible Holdings—Capital[1] **Convertible Holdings—Income[1]**	—*	–5.7	6.7	269	–9	NA	0.76p
		Convertible Securities & Income[2]/Federated	—*	2.7	8.3	9	–15	none	1.00
•D	A	**Country Capital Income Fund/Country Cap**	—*	6.5	6.9	6	0	5.00	1.15
C	C	**Criterion Inc–Commerce Inc Shs/Criterion**	13.5	–3.3	5.5	72	–17	4.75	*1.20*
		Criterion Special Convertible Secs/Criterion	—*	–10.3	4.6	15	–3	6.00r	*2.00*

A [illegible] is added to this list if it has at least $5 million in net assets and, if open end, is at least 12 months old, a fund is dropped when its assets fall below $2 millio [illegible] funds [illegible] graded only if in operation since 7/31/82. Long term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided b [illegible] asset value; it may differ from yield as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load* [illegible] • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new [illegible] of partial absorption of expenses by fund sponsor. b Includes back end load that reverts to fund. r Includes back-end load that reverts to distributo [illegible] or not available. [1]Dual fund. Performance, asset and expense data on capital and income shares treated as a unit. [2]Formerly Fortress Convertibl [illegible] Income. ††Closed to new investors.

Table of distributors, showing addresses and phone numbers, begins on page 250.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES balanced fund composite	14.6%	–1.3%	5.8%				$1.30
		Dean Witter Convertible Secs/Dean Witter	—*	–15.6%	3.3%	$1,219	–36%	5.00%r	*$1.91*
		Delaware Group Delaware Fund/Delaware	—*	–11.1	2.2	323	–25	8.50	0.73
B	D	Dodge & Cox Balanced Fund/Dodge & Cox	15.2%	0.2	5.4	40	3	none	0.72
		Dolphin FRIC Convertible Fund/Dolphin	—*	–0.7	none	9	–3	4.50	*2.25p*
C	C	Dreyfus Convertible Securities/Dreyfus	13.6	3.8	4.9	262	–1	none	0.85p
		Duff & Phelps Selected Utilities/closed end	—*	3.8	8.4	1,064	5	NA	1.61
		Eaton Vance High Income Trust/Eaton Vance	—*	6.6	11.6	237	12	6.00b,r	*2.02*
D	A	Eaton Vance Inc Fund of Boston/Eaton Vance	12.4	8.2	16.0	45	–1	4.75	1.21
C	C	Eaton Vance Investors Fund/Eaton Vance	14.8	–0.3	5.0	211	–12	4.75	0.90
		Ellsworth Convert Grow & Inc/closed end	—*	1.4	6.2	53	–6	NA	1.40
D	B	Federated Stock & Bond Fund/Federated	14.2	2.7	5.1	95	–8	none	1.00p
		Fidelity Balanced Fund/Fidelity	—*	5.3	6.6	132	–22	2.00	1.41
		Fidelity Convertible Securities/Fidelity	—*	–3.7	none	50	10	none	1.60
B	B	Fidelity Puritan Fund/Fidelity	17.3	0.4	7.3	4,302	–7	2.00	0.80
		First Australia Fund/closed end	—*	–18.0	2.8	62	–23	NA	2.45
		First Lakeshore Diversified Asset/Dreyfus	—*	2.4	6.1	5	0	none	0.00p
D	A	Franklin Income Fund/Franklin	15.8	4.4	10.2	653	59	4.00	0.60
		FundTrust–Growth & Income/Furman Selz	—*	–1.3	5.7	58	–33	1.50	*1.58p*
•B	D	GPM Fund/Trusteed	—*	–5.6	3.3	6	–15	none	1.46
		Hidden Strength–Mod Asset Alloc[1]/Global Capital	—*	0.9	4.0	30	170	4.75	*1.26*
C	C	IDS Mutual/IDS	14.8	2.4	6.4	1,452	–6	5.00	0.63p
D	A+	Income Fund of America/American Funds	15.1	2.4	7.5	922	0	5.75	*0.54*
		Indust–Mackenzie Op Inc/Mackenzie	—*	–9.3	5.5	299	10	8.50	1.01
		Integrated Income–Convert Secs/Integrated	—*	–3.5	5.3	34	30	4.75	*1.94p*
		Investment Portfolios–Tot Return/Kemper	—*	–6.9	2.2	531	22	5.00r	*2.12*
A+	F	Kemper Total Return Fund/Kemper	16.0	–15.4	3.9	1,034	–16	8.50	0.79
C	C	Keystone Custodian K-1/Keystone	12.5	–3.4	7.2	686	–6	4.00b	*1.86*
		Lincoln National Convert Secs/closed end	—*	2.4	6.5	98	–4	NA	0.88
A	C	Loomis-Sayles Mutual Fund/New England	16.3	–3.3	3.9	325	6	none	1.02
		MacKay-Shields MainStay–Convert/NYLife	—*	–5.3	3.5	31	–13	5.00r	*2.50*
B	C	Mass Financial Total Return/Mass Finl	14.9	–1.1	5.8	487	0	7.25	0.69
D	B	Merrill Lynch Equi-Bond I Fund/ML Funds	10.1	2.4	3.7	15	–13	4.50b	1.50p
		Merrill Lynch Phoenix Fund/ML Funds	—*	12.2	3.1	117	–8	6.50	1.18p
		Merrill Lynch Retire Benefit Inv/ML Funds	—*	–4.0	2.8	2,536	–20	4.00r	*1.79*
F	A	Mutual of Omaha Income/Mutual of Omaha	10.9	5.3	8.3	158	5	8.00	0.79
		National Strategic Allocation/National Secs	—*	–5.3	none	155	NM	7.75	*1.68*

balanced fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 million. alanced funds are graded only if in operation since 7/31/82. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided by 30/88 net asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) ending or in force.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. p: Net of partial absorption of expenses by und sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not applicable or not available. NM: Not eaningful. [1]Formerly Hidden Strength–Total Return.

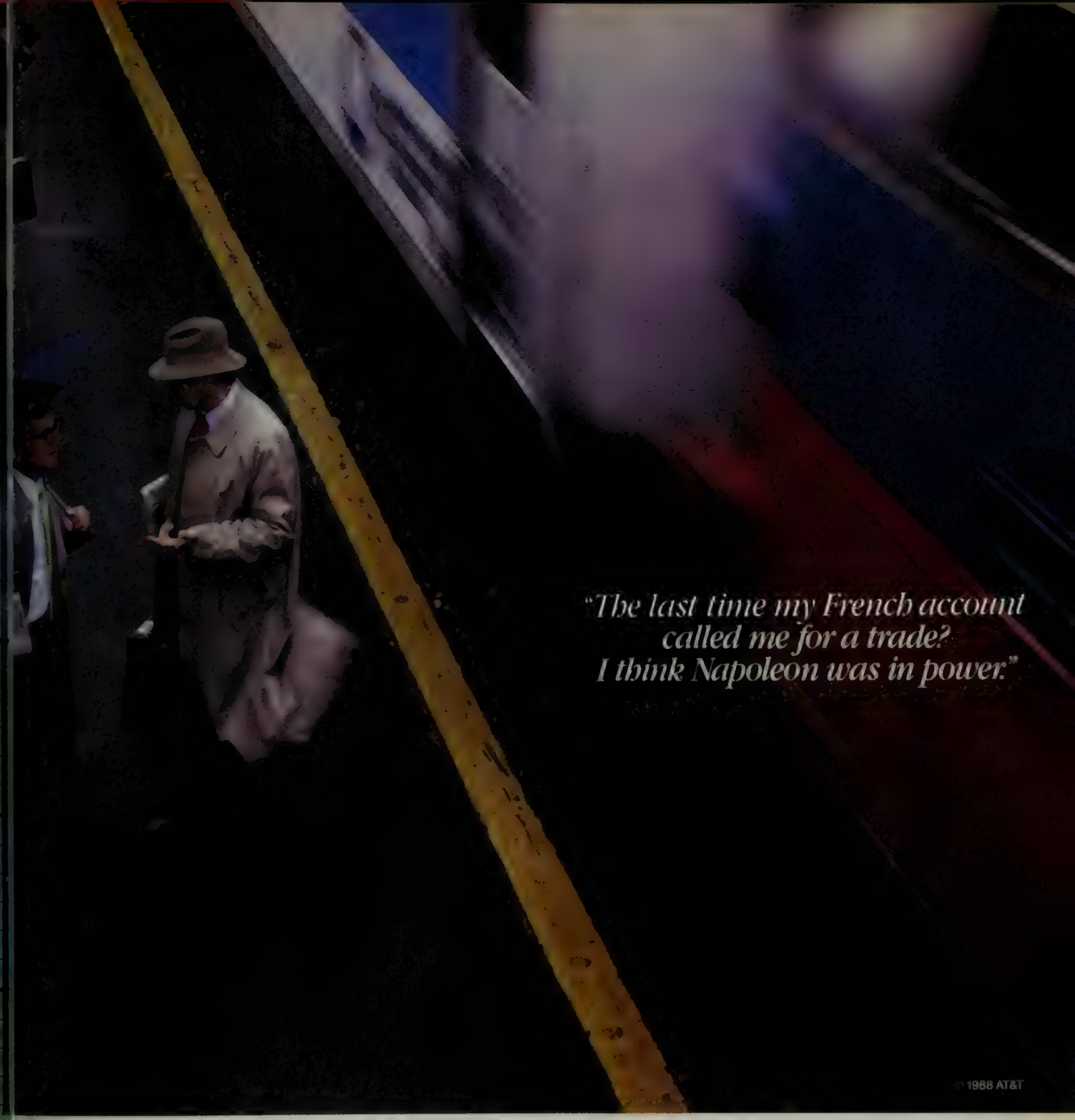
'able of distributors, showing addresses and phone numbers, begins on page 250.

1988 Fund Ratings/Balanced

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1978 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Standard & Poor's 500 stock average	16.9%	–6.9%	3.3%				
		FORBES balanced fund composite	14.6%	–1.3%	5.8%				$1.30
C	B	National Total Income Fund/National Secs	15.8%	2.9%	5.8%	$143	–5%	7.25%	$0.91
B	D	National Total Return Fund/National Secs	16.1	–2.2	4.9	278	–16	7.25	0.84
		Noddings Convertible Strategies/Noddings	—*	0.1	7.2	8	–34	none	2.00
		Olympic Trust–Balanced Income/Olympic	—*	4.9	5.0	7	72	none	1.00p
•C	D	Pax World Fund/Pax World	—*	–3.1	4.2	72	1	none	*1.10*
•B	•C	Phoenix Balanced Fund/Phoenix	—*	–4.2	5.0	422	26	8.50	0.74
C	B	Phoenix Convertible Fund/Phoenix	16.9	–1.6	7.0	165	6	8.50	0.78
D	B	Provident Fund for Income/American Cap	13.8	–6.1	7.1	100	–14	7.25	0.76
		Pru-Bache IncomeVertible Plus/Pru-Bache	—*	1.9	6.1	503	–5	5.00r	*2.00*
A	D	Putnam Convert Income-Growth/Putnam	16.4	–8.2	6.6	1,036	–19	8.50	0.84
B	C	George Putnam Fund of Boston/Putnam	15.2	–2.1	5.7	403	–7	8.50	0.71
		Rea-Graham Fund/Rea	—*	5.4	3.8	50	2	6.75	1.41p
		RNC Income Fund/Midvale	—*	3.9	none	14	47	4.75	*2.10p*
		RNC Westwind Fund/Midvale	—*	–7.3	none	11	72	4.75	*2.29p*
		Rochester Convertible–Growth/Rochester	—*	–6.3	5.8	6	11	3.25	*2.63*
		Rochester Convertible–Income/Rochester	—*	–4.8	11.9	6	–28	3.25	*2.28*
		Royce Fund–Total Return[1]/Quest Dist	—*	4.5	5.7	7	8	1.00b,r	*1.98*
D	A	Seligman Income Fund/Seligman	13.0	4.0	7.9	173	–5	4.75	0.79
C	B	Sentinel Balanced Fund/Equity Svcs	14.2	–3.7	5.9	67	–3	8.50	0.67
		Shearson Lehman–Convert Secs/Shearson	—*	3.6	6.4	177	–22	5.00r	*1.78p*
C	C	Sigma Trust Shares/Sigma	13.1	0.6	5.1	46	–5	6.00	*1.09*
		Skyline Fund–Balanced/Mesirow	—*	0.5	none	11	208	3.85	1.61
C	F	SteinRoe Equity–Total Return/Stein Roe	12.7	–4.0	5.8	139	–22	none	0.83
•C	•B	Strong Investment Fund/Strong	—*	–0.4	5.4	269	–21	1.00	1.20
•A	•C	Strong Total Return Fund/Strong	—*	–1.0	5.2	956	5	1.00	1.10
		TCW Convertible Securities Fund/closed end	—*	–4.3	7.4	178	–9	NA	0.83
		Templeton Income Fund/Templeton	—*	4.9	8.3	129	[illegible]	8.50	1.00
		Triflex Fund[2]/Securities Mgmt	—*	11.1	7.4	15	51	7.50	0.99
•C	•D	Unified Income Fund/Unified	—*	–7.1	6.9	10	–31	none	1.10
A	D	United Continental Income/Waddell & Reed	15.0	–9.4	5.7	320	–17	8.50	0.84
		[illegible]ted Gold & Government/Waddell & Reed	—*	–8.2	2.5	117	3	8.50	1.20
[illegible]	[illegible]	[illegible]tirement Shares/Waddell & Reed	13.4	–1.8	5.6	104	–5	8.50	0.87
		[illegible] Convertible Securities/Vanguard	—*	–4.5	6.3	76	–30	none	0.85
		[illegible]ng [illegible] Fund/Vanguard	—*	3.1	6.0	652	2	none	—
D	A	[illegible] Wellesley Income Fund/Vanguard	13.5	5.6	8.2	540	–9	none	0.49
B	C	Vanguard [illegible] Fund/Vanguard	16.2	–1.1	5.9	1,494	–3	none	0.43

A balanced fund is added [illegible] million in net assets and, if open-end, is at least 12 months old; a fund is dropped when its assets fall below $2 millio[illegible] Balanced funds are g[illegible] 1982. Long-term average total return is for 2/28/78 to 6/30/88. Yield is last 12 months' income dividends divided [illegible] 6/30/88 net asset value, if [illegible] by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden lo[illegible] pending or in force.* • Fund rate[illegible] two [illegible] maximum allowable grade A. *Fund not in operation for full period. p Net of partial absorption of expenses [illegible] fund sponsor. b Includes back end load tha[illegible] r Includes back end load that reverts to distributor. [1]Formerly Royce Equity Income. [2]Formerly Ameri[illegible] National Bond Fund. [3]Expenses are incurred [illegible] funds.

Table of distributors, showing addresses and phone numbers, begins on page 250.



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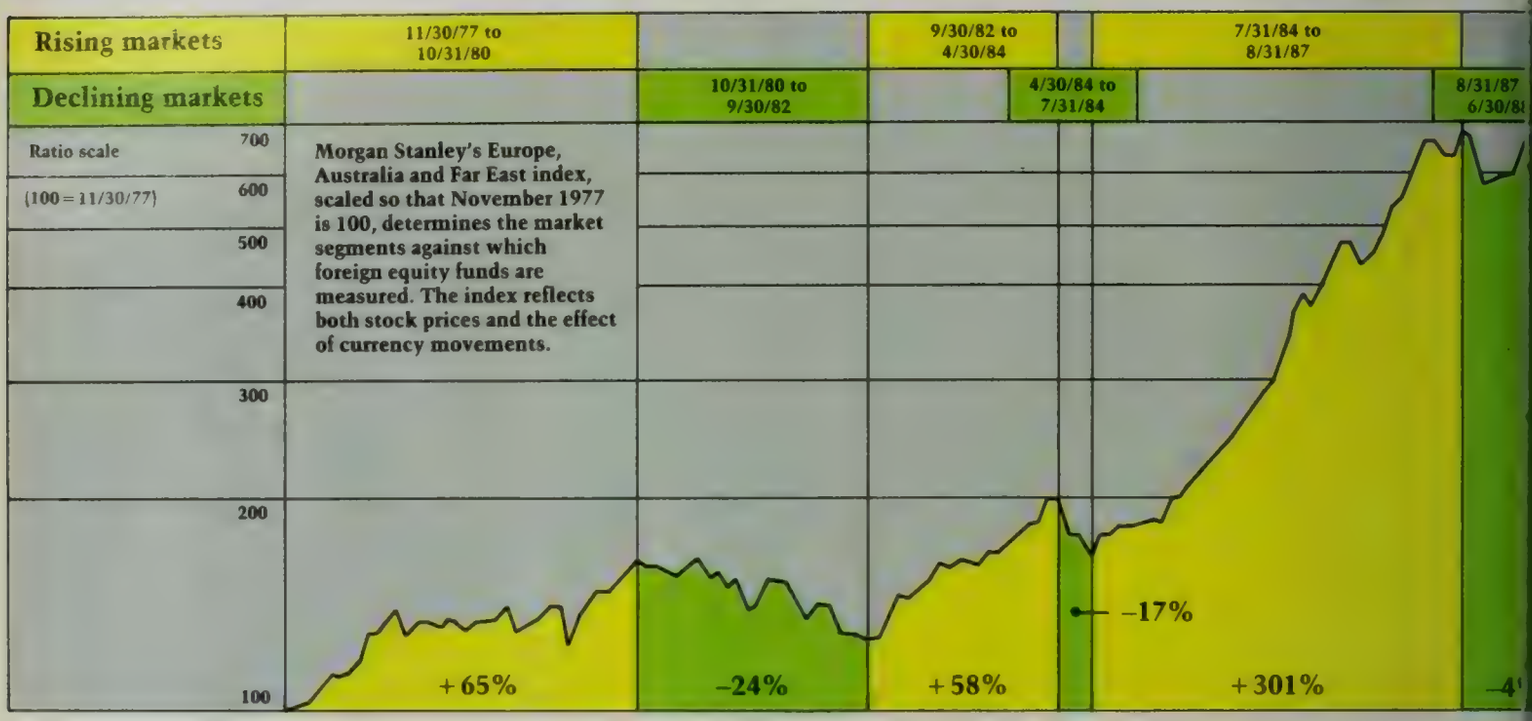
Foreign stock funds

U.S.-based stock funds with predominantly foreign portfolios are in this table. The benchmark for measuring foreign fund performance is the Morgan Stanley Capital International stock market index for Europe, Australia and the Far East (EAFE). The index aims to show the dollar return that a U.S. investor would have enjoyed in the average foreign stock. T index, that is, reflects not only the rising prices on fore bourses but the declining dollar. Funds based overs whether they invest in local markets or in the U.S., are covered in the FORBES funds survey.



Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1977 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expen per $1
		Morgan Stanley Capital Intl EAFE Index	22.0%	4.1%	1.2%				
		FORBES foreign stock fund composite	18.4%	–4.1%	2.1%				$1.79
D	B	Alliance Global–Canadian Fund/Alliance	13.1%	5.6%	0.9%	$27	0%	5.50%	*$1.7*
		Alliance Global–World Equities/Alliance	—*	–6.3	1.9	2	–80	5.50	*2.5*
•B	•C	Alliance International Fund/Alliance	—*	–4.7	1.3	132	–32	5.50	*1.3*
		AMA Growth–Global Growth/AMA	—*	–4.3	1.9	119	–12	none	*1.4*
B	D	ASA Limited/closed end	16.5	–36.8	9.6	499	–41	NA	0.2
		Asia Pacific Fund/closed end	—*	–11.4	none	75	–11	NA	1.9
		Blanchard Strategic Growth/Sheffield	—*	–2.1	2.1	251	35	none[2]	*2.2*
		Brazil Fund/closed end	—*	—*	—*	141	—	NA	NA
•D	•C	Bull & Bear Gold Investors[1]/Bull & Bear	—*	–17.3	none	48	–23	none	*2.4*
		Clemente Global Growth Fund/closed end	—*	–6.3	none	52	–6	NA	2.9

A foreign stock fund is added to this list if it has at least $5 million in net assets and, if open end, is at least 12 months old; a fund is dropped when its assets fall below $2 m. Foreign stock funds are graded only if in operation since 9/30/82. Long term average total return is for 11/30/77 to 6/30/88. Yield is last 12 months' income divide by 6/30/88 net asset value; it may differ from yield as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder paid 12b-1 plan exceeding 0 Decided to suspend or in force.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. p Net of partial absorption ex. fund sponsor. b Includes back end load that reverts to fund. r Includes back end load that reverts to distributor. NA Not applicable or Formerly Dedenda Investors. [2]Exit fee of $125 on initial investment.

Table of distributors, showing addresses and phone numbers, begins on page 250.

'erformance in UP	in DOWN —markets—	Fund/distributor	Total return: Annual average 1977 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Morgan Stanley Capital Intl EAFE Index	**22.0%**	**4.1%**	**1.2%**				
		FORBES foreign stock fund composite	**18.4%**	**–4.1%**	**2.1%**				**$1.79**
		Colonial Intl Equity Index/Colonial	—*	–0.9%	none	$8	–12%	4.75%	*$1.65*
		Criterion Special Global Growth/Criterion	—*	–16.6	none	10	–7	6.00r	*2.96*
		Dean Witter World Wide Inv/Dean Witter	—*	–3.9	0.5%	343	–31	5.00r	*2.13*
		Dreyfus Strategic World Inv LP/Dreyfus	—*	21.5	none	16	403	3.00	NA
		EuroPacific Growth Fund/American Funds	—*	–1.7	1.9	193	–21	5.75	*1.21*
		Fenimore Intl Fund Equity/Drexel	—*	–15.9	1.6	63	–34	5.00r	*2.62p*
		Fidelity Europe Fund/Fidelity	—*	–15.7	none	79	–61	3.00r	3.10p
		Fidelity International Growth & Inc/Fidelity	—*	–7.0	0.6	33	–37	2.00r	2.91
		Fidelity Overseas Fund/Fidelity	—*	–9.1	none	1,315	–43	3.00	1.61
		Fidelity Pacific Basin Fund/Fidelity	—*	–5.1	none	151	–52	3.00r	2.08
		Financial Strategic–European/Financial Prog	—*	–15.7	0.6	6	31	none	1.50p
		Financial Strategic–Pacific Basin/Financial Prog	—*	–6.5	0.6	35	–42	none	1.26
		First Iberian Fund/closed end	—*	—*	—*	59	—	NA	NA
•C	•B	**First Investors International Secs/First Inv**	—*	4.7	none	100	44	8.50	*1.73*
		Flag Investors International Trust/Brown	—*	–7.3	1.4	38	5	4.50	*1.46p*
		France Fund/closed end	—*	–19.6	0.8	78	–30	NA	1.95
B	C	**Franklin Gold Fund/Franklin**	21.6%	–10.9	4.5	276	1	4.00	0.71
		Freedom Inv II–Global Fund/Tucker Anthony	—*	–12.0	none	42	–35	3.00r	*2.53*
		FT International/Federated	—*	–7.0	1.5	70	–41	none	1.00p
		Fund Source–Intl Equity/Furman Selz	—*	–3.4	none	31	10	none	*1.25p*
		GAM Global Fund/GAM	—*	–7.4	1.3	20	–27	none	*2.09*
		GAM International Fund/GAM	—*	–10.2	0.7	22	–36	none	*2.23p*
		GAM Pacific Basin Fund/GAM	—*	–3.1	none	6	287	none	*6.80*
		Germany Fund/closed end	—*	–17.9	none	60	–25	NA	1.86
		Global Government Plus/closed end	—*	—*	—*	473	—	NA	1.83
		GT Global Europe/GT Global	—*	–11.4	none	8	–56	4.75	*2.00*
		GT Global Worldwide/GT Global	—*	–1.2	none	9	193	4.75	*2.80*
		GT Global International/GT Global	—*	–3.2	none	21	–12	4.75	*1.90*
		GT Global Japan/GT Global	—*	45.9	none	20	183	4.75	*3.00*
D	C	**GT Global Pacific/GT Global**	15.0	3.2	none	51	–14	4.75	*1.90*
		John Hancock Global Trust/Hancock	—*	–11.9	0.3	141	–11	8.50	1.47
		Helvetia Fund/closed end	—*	—*	—*	88	—	NA	1.85
		IAI International Fund/IAI Funds	—*	–2.6	none	13	8	none	2.13
		IDS International Fund/IDS	—*	–13.8	0.2	245	–31	5.00	1.16p
		IDS Strategy–Pan Pacific Growth/IDS	—*	–15.2	none	60	15	5.00r	*2.16p*
		Ivy International Fund/Ivy	—*	2.3	0.3	23	47	none	1.90
C	B	**Japan Fund/Scudder**	20.9	13.7	0.8	402	–43	none	0.90

oreign stock fund is added to this list if it has at least $5 million in net assets and, if open-end, is at least 12 months old, a fund is dropped when its assets fall below $2 million. Foreign stock funds are graded only if in operation since 9/30/82. Long-term average total return is for 11/30/77 to 6/30/88. Yield is last 12 months' income dividends ided by 6/30/88 net asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% dden load) pending or in force.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. p: Net of partial absorption of penses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not applicable or not available.

able of distributors, showing addresses and phone numbers, begins on page 250.

1988 Fund Ratings/Foreign

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1977 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expen per $1
		Morgan Stanley Capital Intl EAFE Index	**22.0%**	**4.1%**	**1.2%**				
		FORBES foreign stock fund composite	**18.4%**	**–4.1%**	**2.1%**				**$1.79**
•C	•C	**Kemper International Fund/Kemper**	—*	–2.0%	1.3%	$178	–25%	8.50%	$1.08
D	C	**Keystone International Fund/Keystone**	14.8%	–10.8	1.2	117	–27	4.00b	2.0
B	D	**Keystone Precious Metals/Keystone**	17.6	–11.8	1.1	258	25	4.00b	1.8
C	C	**Kleinwort Benson–Transatlantic Gr/Kleinwort**	16.7	–3.2	none	57	–44	none	1.7
		Korea Fund/closed end	—*	36.0	2.0	265	26	NA	1.50
		Lexington Global Fund/Lexington	—*	8.9	0.1	32	154	5.00	1.1
		MacKay-Shields MainStay–Global/NYLife	—*	–1.8	1.7	18	36	5.00r	3.2
		Malaysia Fund/closed end	—*	–11.8	1.6	69	–14	NA	1.8
		Merrill Lynch EuroFund/ML Funds	—*	–15.8	0.6	295	–39	4.00r	2.0
		Merrill Lynch Intl Holdings/ML Funds	—*	–5.8	2.5	233	–35	6.50	1.3
B	C	**Merrill Lynch Pacific Fund/ML Funds**	24.6	–6.5	4.5	292	–39	6.50	0.9
•A	•D	**Mexico Fund/closed end**	—*	–28.4	2.0	145	–30	NA	1.6
		MFS Lifetime Global Equity Trust/Mass Finl	—*	–9.1	none	43	100	6.00r	2.4
C	B	**New Perspective Fund/American Funds**	19.1	–4.0	2.4	1,006	–10	5.75	0.6
		Nomura Pacific Basin Fund/Nomura	—*	6.6	0.4	87	–16	none	1.2
C	C	**Oppenheimer Global Fund/Oppenheimer**	20.1	–9.2	0.3	411	–20	8.50	1.9
		PaineWebber Atlas Fund/PaineWebber	—*	–7.3	1.4	214	–33	8.50	1.2
•B	•C	**T Rowe Price International Stock/Price**	—*	–5.3	1.5	654	–35	none	1.2
		Pru-Bache Global Fund/Pru-Bache	—*	–8.3	3.8	560	–33	5.00r	1.9
		Pru-Bache Global Genesis/Pru-Bache	—*	—*	—*	11	—	5.00r	3.9
		Pru-Bache Global Natural Res/Pru-Bache	—*	—*	—*	52	—	5.00r	2.4
C	C	**Putnam International Equities/Putnam**	19.6	–9.9	1.4	506	–17	8.50	1.3
		Scudder Global Fund/Scudder	—*	–4.5	0.4	81	–21	none	1.7
C	C	**Scudder International Fund/Scudder**	18.3	–5.9	2.2	551	–32	none	1.2
		Scudder New Asia Fund/closed end	—*	12.7	0.6	87	12	NA	0.7
		Shearson Lehman Global Oppor/Shearson	—*	–15.0	0.7	140	–48	5.00	1.3
		Shearson Lehman–Intl Equity/Shearson	—*	–14.9	none	97	–47	5.00r	2.6
		Sigma World Fund/Sigma	—*	–4.8	0.3	8	–27	6.00	2.0
D	A	**SoGen International Fund/Sogen**	19.6	3.3	4.8	106	3	3.75	1.3
		Taiwan Fund/closed end	—*	120.5[1]	none	81	105	NA	3.7
		Templeton Emerging Markets/closed end	—*	–1.1	2.2	106	–5	NA	2.1
		Templeton Foreign Fund/Templeton	—*	3.5	3.0	297	7	8.50	0.7
•C	•A	**Templeton Global I/Templeton**	—*	–6.1	2.8	278	–18	†	0.5
		Templeton Global II/Templeton	—*	–5.5	3.0	492	–16	8.50	0.6
C	C	**Templeton Growth Fund/Templeton**	17.4	–0.3	3.2	1,506	4	8.50	0.6
•C	B	**Templeton World Fund/Templeton**	—*	0.0	4.2	3,858	–8	8.50	0.6
		Thai Fund/closed end	—*	—*	—*	112	—	NA	1.4

[illegible] fund is listed to this list it has at least $5 million in net assets and if open end is at least 12 months old; a fund is dropped when its assets fall below $2 [illegible] stock funds are graded only if in operation since 9/30/82. Long term average total return is for 11/30/77 to 6/30/88. Yield is last 12 months income divide[illegible] asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder paid 12b-1 plan exceeding 0* [illegible] *percent.* • Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to all investo[illegible] of expenses by fund sponsor. b. Includes back end load that reverts to fund. r. Includes back end load that reverts to distributor. NA [illegible] Adjusted for effect of secondary offering 5/18/88.

Table of distributors, showing addresses and phone numbers, begins on page 250.

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Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1977 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expens per $1
		Morgan Stanley Capital Intl EAFE Index	22.0%	4.1%	1.2%				
		FORBES foreign stock fund composite	18.4%	–4.1%	2.1%				$1.79
		Thomson McKinnon Inv–Global/Thomson	—*	–7.5%	none	$67	–36%	5.00%r	$2.50
C	A	United International Growth/Waddell & Reed	19.6%	–1.4	2.0%	290	–1	8.50	1.07
A	D	United Services–Gold Shares/United Services	14.6	–36.5	10.7	236	–42	none	1.18
		United Services–Prospector/United Services	—*	–24.0	9.1	45	–41	2.00+r	3.20
		US Boston Inv–Foreign Perform[1]/US Boston	—*	–18.9	1.3	6	–24	1.00r	2.00
A	D	Van Eck International Investors/Van Eck	21.6	–20.6	3.4	862	–24	8.50	0.71
		Van Eck World Trends Fund/Van Eck	—*	–5.3	2.1	78	–21	7.50	*1.5*
		Vanguard Spec–Gold & Prec/Vanguard	—*	–13.6	3.3	136	–23	1.00b	0.47
		Vanguard Trustees Comm–Intl/Vanguard	—*	5.8	3.6	602	–26	none	0.50
		Vanguard World–Intl Growth/Vanguard	—*	5.3	1.2	499	–11	none	0.66
		Warburg International Fund/Reich & Tang	—*	–6.4	0.7	7	–20	none	1.99

Foreign bond funds

Since the dollar started falling three years ago, a lot of foreign bond funds have come out of the woodwork. So long as the dollar falls, these funds have an advantage over funds that buy U.S. bonds. But when the dollar rebounds, they suffer. funds listed below are too new for us to assign performa grades to them.

Fund/distributor	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expen per $1
FORBES foreign bond fund composite	13.8%	8.5%				$1.52
AMA Income–Global Short-Term/AMA	6.4%	5.3%	$28	82%	none	*$1.6*
Fidelity Global Bond Fund/Fidelity	11.2	6.9	79	176	none	0.9
First Australia Prime Income/closed end	27.9	10.8	894	14	NA	1.0
Freedom Inv II–Global Inc +/Tucker Anthony	17.4	8.5	131	433	3.00%r	*1.8*
Global Yield Fund/closed end	16.3	11.8	667	–14	NA	1.0
International Cash–Global/Huntington Inv	9.7	4.3	183	435	1.25	*2.0*
Kleinwort Benson Australian Inc/closed end	27.7	8.5	73	11	NA	1.5
Mass Financial Intl-Bond/Mass Finl	12.6	15.3	165	11	7.25	1.1
Merrill Lynch Retire Global/ML Funds	10.8	6.9	314	–13	4.00r	*1.7*
PaineWebber Master Global Inc/PaineWebber	19.7	7.5	1,097	62	5.00r	*2.0*
T Rowe Price International Bond/Price	9.6	9.3	420	108	none	1.2
Putnam Global Government Inc/Putnam	25.2	9.7	129	233	4.75	N.
Shearson Lehman Prec Metals/Shearson	–11.7	none	60	–15	5.00	1.7
Shearson Lehman–Global Bond/Shearson	9.9	5.1	165	1	5.00r	*1.8*
Templeton Global Income Fund/closed end	—*	—*	1,008	—	NA	N.

Foreign bond funds must have $25 [illegible] assets to be listed; they are not rated for long-term performance. Yield is last 12 months' income dividends divided by 6/30 net asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden lo [illegible] in [illegible]).* *Fund not in operation for full period. ‡Closed to all investors. p Net of partial absorption of expenses by fund sponsor. b Includes back-end lo [illegible]. r Includes back-end load that reverts to distributor. NA Not applicable or not available. [1]Formerly US Boston Investment–International.

Table of distributors, showing addresses and phone numbers, begins on page 250.

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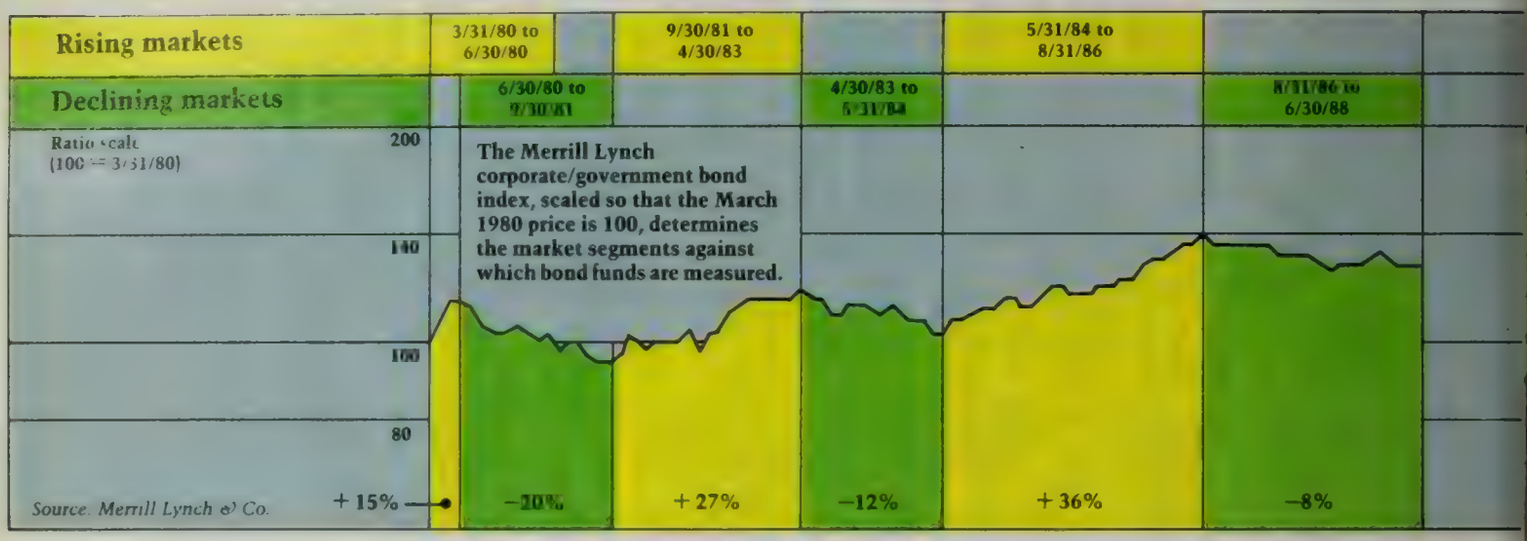
Bond & preferred stock funds

Bond funds are rated according to the same recipe as stock funds, with separate grades in up and down markets. The cycles are different, however—they begin in 1980 rather than 1978—and the benchmark, of course, is different. The concept: It's easy to do well in either bull markets (by buying long-term bonds) or bear markets (by buying short-te bonds) but hard to do well in both. To be rated at all, a bo fund must have been in existence for at least two full mar cycles, that is, since Sept. 30, 1981. The list of distribu addresses and phone numbers begins on page 250.



Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1980 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expens per $1
		Merrill Lynch corporate/govt bond index	13.8%	7.3%	9.0%				
		Forbes bond and preferred stock composite	13.8%	6.4%	9.8%				$1.04
		AARP Income–General Bond/Scudder	—*	6.6%	9.5%	$123	8%	none	$1.18
		AARP Income–GNMA & US Treas/Scudder	—*	7.2	9.1	2,829	–4	none	0.88
		ACM Government Income Fund/closed end	—*	—*	—*	512	—	NA	1.64
		ACM Government Securities/closed end	—*	—*	—*	701	—	NA	1.58
		ACM Government Spectrum/closed end	—*	—*	—*	292	—	NA	1.25
		Advantage Government Securities/Advest	—*	1.1	7.4	218	–15	4.00%r	1.7
		Alliance Bond–High Yield/Alliance	—*	2.3	12.7	355	–24	5.50	1.0
B	D	Alliance Bond–Monthly Inc Shs/Alliance	13.8%	6.1	9.7	38	–9	5.50	1.7
		Alliance Bond–US Government/Alliance	—*	6.4	10.9	529	7	5.50	1.0
		Alliance Mortgage Securities Inc/Alliance	—*	9.8	10.8	656	–13	5.50	1.1
D	D	AMA Income–Classic Income/AMA	11.8	4.5	7.4	41	5	none	1.6
B	B	American Capital Bond Fund/closed end	14.8	9.2	10.2	232	0	NA	0.7
C	B	American Capital Corp Bond/American Cap	14.1	11.6	11.1	209	54	4.75	0.7
		American Capital Federal Mort/American Cap	—*	6.6	8.2	57	–34	4.75	1.1
		American Capital Govt Secs/American Cap	—*	4.8	9.0	6,065	–31	6.75	0.6
C	B	American Capital High Yld Inv/American Cap	14.1	6.5	12.8	600	1	6.75	0.7

[illegible] included if it has at least $25 million in net assets and, if open end, is at least 12 months old. It will be graded only if in operation since 9/30/81. To [illegible] average total return for 3/31/80 to 6/30/88. Yield is last 12 months' income dividends divided by 6/30/88 net asset value; it may differ from "yield" as defined by the S [illegible] *The fund has a shareholder paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* • Fund rated for two periods only, maximu [illegible] *—Fund not in operation for full period.* p Net of partial absorption of expenses by fund sponsor. b Includes back-end load that reverts to fu [illegible] that reverts to distributor. NA Not applicable or not available.

Table of distributors, showing addresses and phone numbers, begins on page 250.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1980 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	13.8%	7.3%	9.0%				
		FORBES bond and preferred stock composite	13.8%	6.4%	9.8%				$1.04
		American Inc-US Govt Guar/American Funds	—*	7.1%	9.6%	$406	12%	4.75%	*$1.00*
		American Government Income/closed end	—*	—*	—*	157	—	NA	1.40
B	D	AMEV Securities/closed end	13.3%	6.8	10.3	110	–1	NA	0.83
C	B	AMEV US Govt Securities Fund/AMEV	13.9	8.3	9.3	107	3	4.50	0.90
		Avondale Government Securities/Avondale	—*	5.5	7.5	41	4	none	0.60p
A	C	Axe-Houghton Income Fund/Axe Securities	15.1	6.2	9.6	58	9	none	*1.42*
D	B	Babson Bond Trust–Long-Term/Jones & Babson	12.8	6.7	11.2	65	–7	none	0.97
		Bartlett Capital–Fixed Income/Bartlett	—*	7.0	8.6	163	9	none	1.00
		Benham Government Inc–GNMA/Benham	—*	9.4	9.0	254	–15	none	0.73p
C	B	Bond Fund of America/American Funds	14.4	8.4	9.4	909	10	4.75	*0.59*
		Boston Co Managed Income/Boston Co	—*	7.1	9.4	58	–4	none	*0.94*
		Bull & Bear High Yield Fund/Bull & Bear	—*	–5.9	13.2	124	–40	none	*1.50*
		Bull & Bear US Govt Guar Secs/Bull & Bear	—*	8.4	10.4	65	40	none	*2.06p*
B	C	Bunker Hill Income Securities/closed end	13.9	9.0	12.0	48	–3	NA	0.96
•D	A	Capital Preservation Treas Note/Benham	—*	5.5	7.6	56	48	none	0.75p
		Cardinal Government Guaranteed/Ohio Co	—*	7.6	9.5	151	–7	4.75	0.72
		Carnegie Govt Secs–Hi Yld Govt/Carnegie	—*	7.0	6.3	56	18	4.50	*1.28*
		Cigna Government Securities/Cigna	—*	6.9	8.4	42	393	5.00	*1.20*
B	A	Cigna High Yield Fund/Cigna	15.6	9.2	11.7	264	–2	5.00	*0.92*
B	C	Cigna Income Fund/Cigna	14.1	7.2	8.2	234	–9	5.00	*0.84*
C	B	Circle Income Shares/closed end	13.7	10.0	10.7	33	1	NA	0.94
B	C	CNA Income Shares/closed end	15.0	9.5	11.9	81	–2	NA	0.90
		Colonial Government Secs Plus/Colonial	—*	5.7	8.1	3,262	–21	6.75	*1.13*
C	A	Colonial High Yield Securities/Colonial	14.9	8.4	11.4	466	–2	4.75	*1.18*
C	D	Colonial Income Trust/Colonial	12.9	6.1	10.7	165	–5	4.75	*1.15*
		Columbia Fixed Income Secs/Columbia	—*	7.4	8.4	104	–9	none	0.82
		Common Sense–Government/Common Sense	—*	4.4	7.9	55	412	6.75	1.66
C	D	Composite Income Fund/Murphey Favre	12.8	7.7	10.6	165	38	4.00	*0.99*
		Composite US Govt Securities/Murphey Favre	—*	8.6	9.3	89	–14	4.00	*0.88*
		Comstock Partners Strategy Fund/closed end	—*	—*	—*	1,230	—	NA	NA
		Connecticut Mutual–Govt Secs/Conn Mutual	—*	8.4	8.0	33	33	6.25	1.23
		Continental US Govt Plus/Continental	—*	6.4	6.5	80	128	5.50r	*2.10*
•A	•D	Criterion Bond–Investment Qual/Criterion	—*	6.0	8.6	127	–17	4.75	*1.14*
		Criterion Bond–US Govt High Yld/Criterion	—*	6.0	9.3	1,398	–27	4.75	*1.07*
A	D	Current Income Shares/closed end	14.9	7.1	11.5	44	–4	NA	1.00
		Dean Witter Government Income/closed end	—*	—*	—*	639	—	NA	0.82
		Dean Witter Govt Secs Plus/Dean Witter	—*	4.4	8.2	2,218	27	5.00r	*1.51*
B	C	Dean Witter High Yield Secs/Dean Witter	13.9	1.2	14.7	2,112	8	5.50	0.49

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ble of distributors, showing addresses and phone numbers, begins on page 250.

1988 Fund Ratings/Bond & Preferred

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1980 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annu expens per $1
		Merrill Lynch corporate/govt bond index	13.8%	7.3%	9.0%				
		FORBES bond and preferred stock composite	13.8%	6.4%	9.8%				$1.04
		Dean Witter US Govt Securities/Dean Witter	—*	7.3%	9.9%	$10,711	0%	5.00%r	$1.21
B	C	Delaware Group Delchester H-Y–I/Delaware	14.4%	9.0	12.3	561	45	6.75	0.8
		Delaware Group Govt–Inc/Delaware	—*	8.2	9.4	161	85	4.75	0.8
		Delaware Group Treas Res–Inv/Delaware	—*	6.7	7.3	141	–14	none	1.0
D	A+	Drexel Bond-Debenture Trading/closed end	15.8	9.3	9.3	52	0	NA	1.0
		Drexel Series–Government Secs/Drexel	—*	5.3	7.4	296	–37	5.00r	1.8
D	B	Dreyfus A Bonds Plus/Dreyfus	12.1	5.6	8.1	261	–4	none	0.8
		Dreyfus GNMA Fund/Dreyfus	—*	7.7	8.9	1,964	–16	none	1.0
		Dreyfus Strategic Income/Dreyfus	—*	10.0	9.5	37	4	4.50	0.4
		Dreyfus US Govt Intermed LP/Dreyfus	—*	7.5	9.7	67	NM	none	0.0
		Eaton Vance Government Oblig/Eaton Vance	—*	7.8	10.1	353	–16	4.75	1.1
C	B	Eaton Vance High Yield/Eaton Vance	14.2	7.0	11.9	34	–6	4.75	1.0
		Equitec Siebel High Yield Bond/Equitec	—*	4.1	10.6	25	[illegible]	5.00r	2.5
		Equitec Siebel US Govt Secs/Equitec	—*	6.5	9.7	191	106	5.00r	2.0
B	F	Excelsior Income Shares/closed end	12.6	5.8	8.2	38	–3	NA	0.9
		Federated Floating Rate Trust/Federated	—*	5.7	10.5	80	–5	none	0.5
		Federated GNMA Trust/Federated	—*	8.6	9.5	1,915	–25	none	0.5
C	C	Federated High Income Securities/Federated	13.8	4.9	12.8	369	–2	4.50	1.0
		Federated High Yield Trust/Federated	—*	6.4	12.6	239	–12	none	0.7
		Federated Income Trust/Federated	—*	8.4	9.6	1,356	–15	none	0.5
		Federated Intermediate Govt/Federated	—*	7.2	8.4	1,414	–24	none	0.4
		Federated Short-Intermed Govt/Federated	—*	7.0	8.2	2,867	–21	none	0.4
C	D	Fidelity Flexible Bond Fund/Fidelity	12.2	7.0	8.9	319	–14	none	0.7
		Fidelity Ginnie Mae/Fidelity	—*	7.1	8.6	733	–17	none	0.9
D	B	Fidelity Government Securities/Fidelity	11.5	6.3	9.2	640	–9	none	0.8
A	A	Fidelity High Income Fund/Fidelity	16.2	5.1	11.7	1,639	–9	none	0.8
D	A	Fidelity Intermediate Bond Fund/Fidelity	13.0	6.8	9.2	469	31	none	0.8
		Fidelity Mortgage Securities/Fidelity	—*	7.4	8.8	489	–20	none	0.9
		Fidelity Short-Term Bond/Fidelity	—*	6.4	8.9	386	121	none	0.8
		Financial Bond Shs–High Yield/Financial Prog	—*	7.7	11.6	57	33	none	0.8
		Financial Independence–US Govt/MGF	—*	7.3	8.1	35	–32	4.00	1.6
		First Boston Income Fund/closed end	—*	7.3	10.1	211	–3	NA	0.7
		First Boston Strategic Income/closed end	—*	—*	—*	93	—	NA	N.
D	A	First Investors Bond Appreciation/First Inv	12.5	–5.1	11.7	219	–1	7.25	1.
D	C	First Investors Fund for Income/First Inv	11.6	3.5	12.6	1,728	–2	8.50	1.
		First Investors Government Fund/First Inv	—*	8.2	8.1	301	–15	7.25	1.
		First Investors High Yield Fund/First Inv	—*	5.3	11.7	377	156	7.25	1.
		First Trust–US Government/Brown & Assoc	—*	7.8	8.7	253	–19	4.75	0.9

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[illegible] distributors, showing addresses and phone numbers, begins on page 250.

Georgia-Pacific,
're feathering our nest with over $600 million in printing paper sales.

By the end of this year, Georgia-Pacific will become the second largest supplier of printing and writing paper in America. And with the world's largest white paper machine turning out over 640 tons a day, we are well-positioned to become an even more influential competitor in a market that is expected to keep growing at a rate twice that of the GNP.

Containerboard and packaging. Tissue. Printing and writing papers. Market pulp. Combined, they generated nearly $3 billion in sales and upwards of $400 million in operating profits in 1987. And with this year's planned expansions, Georgia-Pacific expects to advance even further as a major supplier to this rapidly growing market.

One that figures to be a highly profitable feather in our cap for many years to come.

Georgia-Pacific GP

Savvy.™ From the ground up.

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1988 Fund Ratings/Bond & Preferred

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1980 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Merrill Lynch corporate/govt bond index	13.8%	7.3%	9.0%				
		FORBES bond and preferred stock composite	13.8%	6.4%	9.8%				$1.04
A+	F	Fort Dearborn Income Securities/closed end	15.3%	8.4%	9.2%	$102	0%	NA	$0.79
C	B	Franklin AGE High Income Fund/Franklin	14.2	6.8	12.8	1,890	12	4.00%	0.57
		Franklin Short-Intermediate US/Franklin	—*	0.7	none	29	738	1.50	0.14
		Franklin Tax-Advantaged US Govt/Franklin	—*	9.8	9.7	26	780	4.00	NA
D	D	Franklin US Government Secs/Franklin	11.7	8.9	9.9	12,436	–13	4.00	0.53
		Freedom Inv–Govt Plus/Tucker Anthony	—*	6.9	8.3	166	–5	3.00r	1.18
		FS Government Securities Inc/Furman Selz	—*	5.0	7.9	62	–46	1.75	1.45
B	D	Fund for US Govt Securities/Federated	12.7	8.2	9.4	1,157	2	4.50	0.96
		FundTrust–Income/Furman Selz	—*	3.2	9.1	54	–4	1.50	1.66
		Government Income Securities/Federated	—*	8.2	9.5	1,753	–31	2.50r	0.81
B	C	John Hancock Bond Trust/Hancock	13.6	7.2	9.4	1,111	–3	8.50	0.82
		John Hancock High Inc–Fed Secs/Hancock	—*	6.5	10.8	72	NM	4.75	1.24
		John Hancock High Inc–Fixed Inc/Hancock	—*	7.2	11.8	67	96	4.75	1.0
A+	D	John Hancock Income Securities/closed end	14.9	7.5	12.1	145	–3	NA	0.65
C	B	John Hancock Investors Trust/closed end	14.5	7.9	12.3	143	–3	NA	0.65
		John Hancock US Guar Mort/Hancock	—*	8.1	9.7	413	–6	8.50	0.87
D	B	John Hancock US Govt Securities/Hancock	11.8	4.9	8.8	203	–5	8.50	0.97
B	C	Hatteras Income Securities/closed end	14.5	6.5	10.2	50	–2	NA	0.98
		Hidden Strength–US Govt H-Y/Global Capital	—*	10.9	10.1	57	NM	4.75	0.0
		High Income Advantage Trust/closed end	—*	—*	—*	283	—	NA	0.89
		High Yield Income Fund/closed end	—*	—*	—*	99	—	NA	1.73
		High Yield Plus Fund/closed end	—*	—*	—*	100	—	NA	NA
D	A	High Yield Securities/AIM	13.4	1.3	13.2	81	–7	4.75	1.1
		Home Investors Govt Guar Inc/Integrated	—*	7.0	8.2	184	–12	5.00r	1.7
		Hutton Investment–Bond & Inc/Shearson	—*	5.2	9.4	628	29	5.00r	1.6
		Hutton Investment–Govt Secs/Shearson	—*	2.2	9.4	3,394	–46	5.00r	1.6
D	D	IAI Bond Fund/IAI Funds	12.0	6.7	9.8	45	10	none	0.8
		IAI Reserve Fund/IAI Funds	—*	6.4	7.3	72	107	none	0.8
B	C	IDS Bond Fund/IDS	14.6	5.2	9.6	1,770	–6	5.00	0.7
		IDS Extra Income Fund/IDS	—*	5.2	11.3	1,167	6	5.00	0.8
		IDS Federal Income Fund/IDS	—*	8.7	8.1	183	1	5.00	0.8
A	C	IDS Selective Fund/IDS	14.5	6.9	8.9	1,111	–6	5.00	0.7
		IDS Strategy–Income/IDS	—*	2.3	5.9	158	6	5.00r	1.6
B	D	INA Investment Securities/closed end	13.6	7.1	9.9	86	–3	NA	0.8
A	D	Independence Square Income Secs/closed end	14.0	9.3	10.8	30	–1	NA	0.9
		Integrated Income–Govt Secs Plus/Integrated	—*	6.8	10.0	30	530	4.75	0.2
		Integrated Income–Income Plus/Integrated	—*	6.2	10.8	26	48	5.00r	1.8
A	C	InterCapital Income Securities/closed end	15.4	8.2	10.9	212	0	NA	0.7

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List of distributors, showing addresses and phone numbers, begins on page 250.

'erformance in UP	in DOWN —markets—	Fund/distributor	Total return: Annual average 1980 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	13.8%	7.3%	9.0%				
		FORBES bond and preferred stock composite	13.8%	6.4%	9.8%				$1.04
		International Heritage–High Yld/Intl Heritage	—*	5.3%	14.3%	$47	NM	6.75%	*$0.59p*
		Investment Portfolios–Govt Plus/Kemper	—*	5.6	10.6	6,383	2%	5.00r	*1.95*
		Investment Portfolios–High Yield/Kemper	—*	9.5	12.3	463	46	5.00r	*2.07*
		Kemper High Income Trust/closed end	—*	—*	—*	219	—	NA	NA
B	A+	Kemper High Yield Fund/Kemper	17.2%	11.8	12.0	757	70	4.50	0.71
C	C	Kemper Income & Capital Preserv/Kemper	13.3	7.8	11.1	296	16	4.50	0.67
C	D	Kemper US Government Secs/Kemper	12.2	6.3	10.8	4,423	1	4.50	0.48
		Keystone America Govt Secs/Keystone	—*	4.3	8.4	75	NM	4.00r	*1.00p*
		Keystone America High Yld Bond/Keystone	—*	4.2	11.4	113	NM	4.00r	*1.00p*
		Keystone America Inv Grade Bond/Keystone	—*	2.6	9.0	39	NM	4.00r	*1.00p*
C	D	Keystone Custodian B-1/Keystone	12.1	3.6	8.4	469	–10	4.00b	*1.60*
C	C	Keystone Custodian B-2/Keystone	13.0	5.2	10.1	885	–5	4.00b	*1.59*
D	B	Keystone Custodian B-4/Keystone	13.3	0.5	12.3	1,251	–16	4.00b	*1.77*
		Kidder Peabody Government Inc/Kidder	—*	7.8	7.8	131	–17	5.00r	*1.77*
		Landmark US Govt Income/Landmark	—*	7.3	8.5	33	–35	none	*1.22p*
D	D	Lexington GNMA Income Fund/Lexington	10.6	5.7	8.3	105	–18	none	0.98
		Liberty Mutual US Guar Inc/Liberty Inv	—*	8.5	9.4	28	50	4.00	0.75p
D	A+	Lincoln Natl Direct Placement/closed end	16.8	13.0	8.3	70	3	NA	0.93
D	A	Lord Abbett Bond-Debenture/Lord Abbett	14.2	5.2	10.9	759	–5	7.25	0.65
D	A	Lord Abbett US Govt Secs/Lord Abbett	14.4	8.4	11.1	905	37	4.75	*0.89*
		Lutheran Brotherhood High Yield/Lutheran	—*	7.3	11.6	92	387	none	1.26p
A	C	Lutheran Brotherhood Income/Lutheran	15.4	8.1	9.5	714	5	5.00	1.03p
		MacKay-Shields MainStay–Govt +/NYLife	—*	6.1	10.3	427	26	5.00r	*2.00*
		MacKay-Shields MainStay–Hi Yld/NYLife	—*	7.0	11.4	105	38	5.00r	*2.00*
B	D	Mass Financial Bond Fund/Mass Finl	13.6	7.1	7.9	311	0	7.25	0.76
B	B	Mass Financial High Inc–Series I/Mass Finl	14.9	1.1	12.2	948	–22	††	0.75
C	A+	MassMutual Corporate Investors/closed end	17.9	3.4	11.9	132	–8	NA	1.95
D	B	MassMutual Integrity–Inv Grade[1]/Mass Mut	12.9	6.8	12.0	110	–10	4.50	*0.98*
D	A	Merrill Lynch Corp–High Inc/ML Funds	14.2	7.0	12.1	771	–8	4.00	0.65
•B	•D	Merrill Lynch Corp–High Qual/ML Funds	—*	7.4	9.0	258	–4	4.00	0.61
•C	•C	Merrill Lynch Corp–Intermed/ML Funds	—*	7.1	8.7	100	–18	2.00	0.62
		Merrill Lynch Federal Securities/ML Funds	—*	7.6	8.8	3,809	–45	6.25	*0.68*
		Merrill Lynch Retire/Income/ML Funds	—*	6.7	8.3	1,933	–11	4.00r	*1.37*
		MetLife-State Street Govt Inc/MetLife	—*	7.0	9.5	1,700	–39	none	*1.03*
		MetLife-State Street Govt Secs/MetLife	—*	5.2	8.4	26	4	4.50	*1.25p*
		MetLife-State Street High Income/MetLife	—*	9.7	11.7	48	70	4.50	*1.25p*
		MFS Government Guar Secs/Mass Finl	—*	6.0	9.3	389	–15	4.75	*1.18*
		MFS Government Markets Inc/closed end	—*	10.6	10.9	879	–2	NA	1.11

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ble of distributors, showing addresses and phone numbers, begins on page 250.

SHE CAN'T HANDLE HEAVY DRINKING LIKE SHE USED TO.

Her mother is an alcoholic.

And, for Kate, the problem is getting worse daily.

She's just one of 7 million children of alcoholics who desperately need help.

Apart from all the suffering they go through growing up, the evidence suggests that they're four times more likely than other kids to become alcoholics themselves.

It's a cycle that could easily go on forever.

At the Children of Alcoholics Foundation, we know ways to break that cycle but we need help.

If you'd like to help us, send just $10, or more if you can afford it.

We'll then send you more information about this complex and alarmingly widespread problem.

It's one face of alcoholism that's remained anonymous long enough.

CHILDREN OF ALCOHOLICS FOUNDATION, INC.

[illegible] Grand Central Station
[illegible] York, NY 10163

1988 Fund Ratings/Bond & Preferred

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1980 to 1988	Total return: Last 12 months	Yield
		Merrill Lynch corporate/govt bond index	13.8%	7.3%	9.0%
		FORBES bond and preferred stock composite	13.8%	6.4%	9.8%
		MFS Government Secs Hi Yld/Mass Finl	—*	3.0%	10.4%
		MFS Income & Opportunity/closed end	—*	—*	—*
		MFS Intermediate Income/closed end	—*	—*	—
		MFS Lifetime Govt Inc Plus/Mass Finl	—*	2.6	8.9
		MFS Lifetime High Income Trust/Mass Finl	—*	3.3	10.1
		MFS Lifetime Mngd Muni Bond/Mass Finl	—*	7.1	6.1
		MFS Multimarket Income Trust/closed end	—*	13.3	13.1
•D	•C	Midwest Income–Intermed Govt/MGF	—*	5.8	7.4
B	C	Montgomery Street Income Secs/closed end	14.4%	9.3	9.4
F	A	Mutual of Omaha America/Mutual of Omaha	10.7	7.3	8.3
A+	C	Mutual of Omaha Interest Shares/closed end	16.1	12.0	10.3
C	D	National Bond Fund/National Secs	11.2	–1.7	17.4
		National Federal Securities/National Secs	—*	1.8	10.4
•C	D	Nationwide Bond Fund/Nationwide	—*	5.9	10.9
		Neuberger & Berman Ltd Mat/Neuberger	—*	7.3	7.1
		Neuberger & Berman MM Plus/Neuberger	—*	7.0	6.8
		New America High Income/closed end	—*	—*	—
D	C	New England Bond Income/New England	12.5	7.4	8.4
		New England Government Secs/New England	—*	7.0	7.4
C	C	Nicholas Income Fund/Nicholas	13.8	7.3	9.7
A	C	Northeast Investors Trust/Northeast Inv	15.4	5.0	15.9
		Oppenheimer Asset Allocation/Oppenheimer	—*	1.2	4.1
		Oppenheimer GNMA Fund/Oppenheimer	—*	8.7	8.8
D	B	Oppenheimer High Yield Fund/Oppenheimer	13.3	6.7	13.3
		Oppenheimer Multi Sector Inc/closed end	—*	—*	—
		Oppenheimer US Government/Oppenheimer	—*	7.9	8.8
B	C	Pacific American Income Shares/closed end	15.1	8.0	12.1
		PaineWebber Fixed Inc–GNMA/PaineWebber	—*	6.6	9.0
		PaineWebber Fixed Inc–Hi Yld/PaineWebber	—*	1.8	13.5
		PaineWebber Fixed Inc–Inv Gr/PaineWebber	—*	5.5	9.0
		PaineWebber Master Income/PaineWebber	—*	5.0	7.2
•C	•B	Phoenix High Yield Fund/Phoenix	—*	5.8	11.6
		Pilgrim GNMA Fund/Pilgrim	—*	7.8	9.7
C	B	Pilgrim High Yield Trust/Pilgrim	13.7	4.6	12.3
		Pilgrim Preferred Fund/Pilgrim	—*	–1.9	14.0
D	B	Pioneer Bond Fund/Pioneer	12.8	7.2	8.9
		T Rowe Price GNMA Fund/Price	—*	6.3	10.1
		T Rowe Price High Yield Fund/Price	—*	8.8	12.1

A taxable bond fund is included if it has at least $25 million in net assets and, if open end, is at least 12 months old. It will be graded only if in operation since 9/30/81. Long term average total return is for 3/31/80 to 6/30/88. Yield: last 12 months' income dividends divided by 6/30/88 net asset value; it may differ from "yield" as defined by SEC. *Expense ratio is in italics if the fund has a shareholder paid 12b-1 plan exceeding 0.1% (hidden) pending or in force.* • Fund rated for two periods only, maximum allowable grade A.

Table of distributors, showing addresses and phone numbers, begins on page [illegible]

Assets 6/30/88 (millions)	% change '88 vs '87	Maximum sales charge	Annual expenses per $100
			$1.49
$1,301	16%	4.75%	*$1.37*
94	—	NA	NA
1,839	—	NA	NA
2,788	190	6.00r	*2.03*
120	62	6.00r	*2.19*
218	49	6.00r	*2.10*
1,098	0	NA	1.12
55	–8	2.00	*1.03*
152	–1	NA	0.80
54	–3	none	0.98
93	3	NA	0.83
894	9	7.25	0.89
837	–32	6.75	0.86
34	–1	7.50	0.64
125	16	none	0.50p
110	33	none	0.50p
392	—	NA	1.05
64	10	6.50	*1.21*
192	–5	6.50	*1.26*
75	5	none	0.86
381	5	none	0.75
41	28	4.75	*1.60*
62	7	4.75	*1.11p*
858	13	6.75	0.88
312	—	NA	0.97
204	–6	6.75	*1.10*
89	–4	NA	0.91
1,520	–47	4.25	0.64
622	–25	4.25	0.64
403	–41	4.25	0.68
307	–32	5.00r	*1.91*
155	0	4.75	0.76
185	–36	4.75	*0.98*
46	–13	4.75	*1.38p*
153	–23	2.25	*1.12*
53	5	4.50	0.89
377	7	none	0.99
963	7	none	0.99p

NA: Not applicable or not available. b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. *Fund not in operation for full period. ††Closed to new investors. p: Net of partial absorption of expenses by fund sponsor.

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[1] Based on CCITT#1 Test Chart

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1988 Fund Ratings/Bond & Preferred

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1980 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Merrill Lynch corporate/govt bond index	13.8%	7.3%	9.0%				
		FORBES bond and preferred stock composite	13.8%	6.4%	9.8%				$1.04
F	A	T Rowe Price New Income Fund/Price	10.9%	8.3%	9.3%	$824	0%	none	$0.60
		T Rowe Price Short-Term Bond/Price	—*	7.1	8.1	289	31	none	0.92
		Principal Preservation–Govt Plus/Ziegler	—*	5.9	8.3	32	–5	4.50%	1.20p
		Princor Government Securities Inc/Princor	—*	8.5	8.6	60	–9	5.00	0.82
		Pru-Bache GNMA Fund/Pru-Bache	—*	6.0	7.6	253	–12	5.00r	1.65
		Pru-Bache Government Plus/Pru-Bache	—*	6.1	7.0	4,072	5	5.00r	1.50
		Pru-Bache Government Plus II/Pru-Bache	—*	4.5	7.4	182	–21	5.00r	1.59
		Pru-Bache Govt Secs–Intermed/Pru-Bache	—*	6.3	8.3	529	–42	none	0.86
C	B	Pru-Bache High Yield Fund/Pru-Bache	14.1	5.6	10.7	2,420	9	5.00r	1.33
		Prudential Intermediate Income/closed end	—*	—*	—*	440	—	NA	NA
		Prudential Strategic Income/closed end	—*	—*	—*	626	—	NA	NA
		Putnam GNMA Plus Trust/Putnam	—*	5.8	10.3	1,517	–33	4.75	NA
		Putnam High Inc Convert & Bond/closed end	—*	—*	—*	108	—	NA	NA
		Putnam High Income Govt/Putnam	—*	4.8	9.3	10,200	–9	6.75	0.73
B	B	Putnam High Yield Trust/Putnam	15.7	8.0	12.6	2,356	1	÷	0.61
		Putnam High Yield Trust II/Putnam	—*	10.6	11.6	380	27	6.75	1.12
B	C	Putnam Income Fund/Putnam	14.7	9.3	10.8	346	17	6.75	0.78
		Putnam Intermediate Govt Inc/closed end	—*	—*	—*	558	—	NA	NA
		Putnam Master Income Trust/closed end	—*	—*	—*	514	—	NA	NA
		Putnam Master Intermediate Inc/closed end	—*	—*	—*	375	—	NA	NA
		Putnam Premier Income Trust/closed end	—*	—*	—*	1,275	—	NA	NA
		Putnam US Govt Guaranteed Secs/Putnam	—*	8.3	9.9	1,360	9	4.75	0.58
F	A	Revere Fund/closed end	9.9	1.0	10.4	34	–9	NA	1.32
		RNC Convertible Securities/Midvale	—*	–6.6	4.9	36	10	4.75	1.70
		RPF of America–Bond Fund/Venture	—*	5.6	9.5	72	0	5.00r	2.31
		Safeco US Government Securities/Safeco	—*	5.7	9.3	28	29	none	1.03
		Scudder GNMA Fund[1]/Scudder	—*	7.2	9.1	253	–4	none	1.04
C	D	Scudder Income Fund/Scudder	13.2	6.2	6.5	241	–4	none	0.94
		Security Income–Corporate Bond/Security	—*	4.9	10.8	51	12	4.75	1.06
		Seligman High Inc–Hi Yld Bond/Seligman	—*	7.9	11.2	64	–19	4.75	1.16
		Seligman High Inc–Secured Mort/Seligman	—*	9.0	10.1	55	17	4.75	1.07
		Seligman High Inc–US Govt Guar/Seligman	—*	8.2	8.8	117	–21	4.75	1.13
•D	E	Sentinel Bond Fund/Equity Svcs	—*	6.2	9.2	27	8	8.50	0.66
		Sentinel Government Securities/Equity Svcs	—*	7.2	8.5	28	27	8.50	0.67
•A	•A	Shearson Lehman High Yield/Shearson	—*	6.7	12.4	521	–7	5.00	0.78
		Shearson Lehman Managed Govts/Shearson	—*	5.7	9.3	918	–35	5.00	0.78
		Shearson Lehman–High Inc Bond/Shearson	—*	8.7	11.2	409	98	5.00r	1.7[illegible]
		Shearson Lehman–Intermed Govt/Shearson	—*	5.5	6.0	47	14	5.00r	1.8[illegible]

[illegible] at least $25 million in net assets and if open end is at least 12 months old. It will be graded only if in operation since 9/30/81. Lo[illegible] 6/30/88. Yield is last 12 months income dividends divided by 6/30/88 net asset value; it may differ from "yield" as defined by the S[illegible] *[illegible] exceeding 0.1% (hidden load) pending or in force.* • Fund rated for two periods only; maxim[illegible] *[illegible]* *Closed to all investors. p Net of partial absorption of expenses by fund sponsor. b Includes back-end l[illegible] Back-end [illegible] events to distributor. NA Not applicable or not available. [1]Formerly Scudder Government Mortgage Securities.

List of distributors, showing addresses and phone numbers, begins on page 250.

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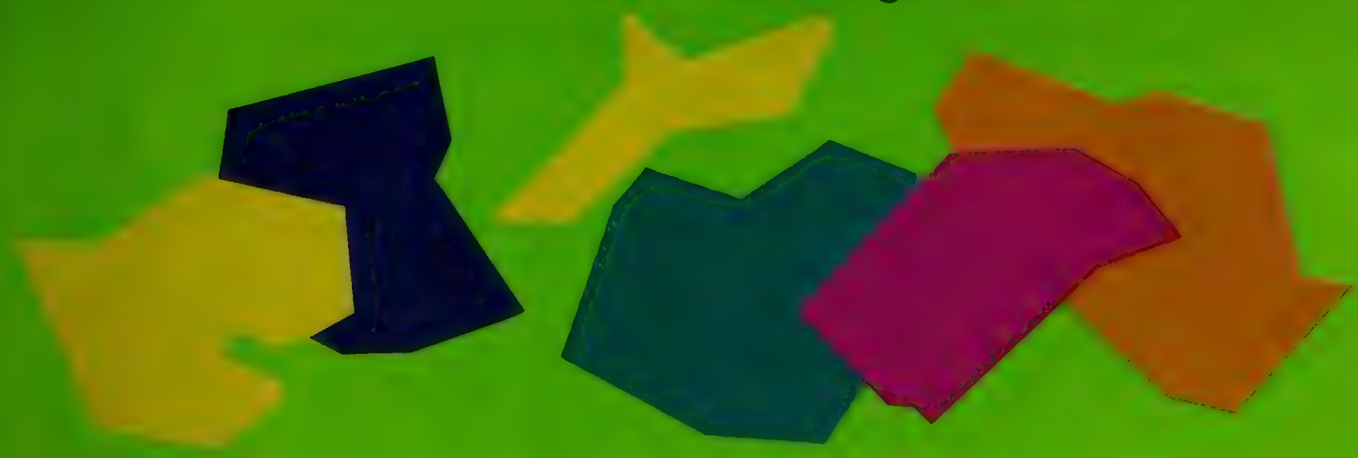

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1988 Fund Ratings/Bond & Preferred

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 1980 to 1988	Total return: Last 12 months	Yield	Assets: 6/30/88 (millions)	Assets: % change '88 vs '87	Maximum sales charge	Annual expense per $10
		Merrill Lynch corporate/govt bond index	13.8%	7.3%	9.0%				
		FORBES bond and preferred stock composite	13.8%	6.4%	9.8%				$1.04
		Shearson Lehman–L-T Govt/Shearson	—*	4.3%	7.6%	$1,119	–35%	5.00%r	$1.60
		Shearson Lehman–Mortgage Secs/Shearson	—*	4.5	8.5	78	37	5.00r	1.69
A	F	Sigma Income Shares[1]/Sigma	13.4%	4.9	7.3	35	2	4.50	1.00
		Smith Barney–Income Return/Smith Barney	—*	7.1	6.8	64	–3	1.25	0.35p
		Smith Barney–US Government/Smith Barney	—*	9.4	9.3	349	–25	4.00	0.36p
D	B	State Mutual Securities Trust/closed end	13.2	8.1	11.1	90	–2	NA	0.82
		SteinRoe Income–Govts Plus/Stein Roe	—*	5.8	7.7	27	19	none	1.00
		SteinRoe Income–High Yld Bonds/Stein Roe	—*	9.2	10.0	97	5	none	0.89
C	D	SteinRoe Income–Managed Bonds/Stein Roe	12.3	6.7	8.0	162	–14	none	0.71
		Strong Income Fund/Strong	—*	8.4	9.7	167	–7	none	1.19
		Thomson McKinnon Inv–Inc/Thomson	—*	7.1	10.2	514	21	5.00r	1.60
		Thomson McKinnon Inv–US/Thomson	—*	5.3	9.6	764	–13	5.00r	1.60
A+	C	Transamerica Income Shares/closed end	16.2	9.7	11.1	117	–2	NA	0.67
		20th Century US Governments/20th Century	—*	6.8	8.5	422	26	none	1.00
		UMB Bond Fund/Jones & Babson	—*	11.3	11.5	30	–5	none	0.87
A	D	United Bond Fund/Waddell & Reed	15.1	9.0	9.0	332	3	8.50	0.64
		United Government Securities/Waddell & Reed	—*	4.7	7.9	138	–22	4.25	0.77
B	C	United High Income Fund/Waddell & Reed	14.4	2.3	13.2	1,251	–5	††	0.76
		United High Income Fund II/Waddell & Reed	—*	6.9	11.6	239	62	8.50	0.88
		USAA Mutual–Income Fund/USAA	—*	8.6	9.5	272	1	none	0.65
A	D	USLife Income Fund/closed end	13.8	2.1	4.8	51	–3	NA	1.35
		Value Line Aggressive Income/Value Line	—*	–4.5	12.9	52	–21	none	1.22
•B	•C	Value Line US Government Secs/Value Line	—*	8.8	9.1	263	20	none	0.70
		Van Eck World Income Fund/Van Eck	—*	15.4	7.8	34	NM	7.50	NA
		Van Kampen Merritt High Yield/Van Kampen	—*	6.4	11.9	246	105	4.90	1.25
		Van Kampen Merritt US Govt/Van Kampen	—*	7.4	9.1	4,623	–13	4.90	0.65
		Vanguard Adj Rate Preferred Stk[2]/Vanguard	—*	–4.8	7.6	76	–40	none	0.43
		Vanguard Bond Market Fund/Vanguard	—*	7.0	8.9	54	104	none	0.14
•B	•B	Vanguard Fixed Income–GNMA/Vanguard	—*	9.0	9.4	1,885	–18	none	0.35
C	[illegible]	Vanguard Fixed Income–High Yld/Vanguard	14.5	7.6	11.8	1,100	–9	none	0.41
C	[illegible]	Vanguard Fixed Income–Inv Gr/Vanguard	13.4	6.6	9.6	646	6	none	0.37
		Vanguard Fixed Income–S-T/Vanguard	—*	7.3	7.6	514	20	none	0.3[illegible]
		Vanguard Fixed Inc–US Treas/Vanguard	—*	6.1	8.4	100	134	none	0.32
A	[illegible]	Vanguard Preferred Stock Fund[3]/Vanguard	14.1	–1.5	11.6	84	–41	none	0.6[illegible]
•C	A	[illegible] Income (+) Plus/Venture	—*	–0.4	14.0	64	–11	8.50	1.19
A	C	[illegible] closed end	14.8	8.9	9.0	89	0	NA	1.00
		WPG [illegible] Securities/Weiss, Peck	—*	7.7	7.7	79	11	none	0.87
		Zenith [illegible] closed end	—*	—*	—*	168	—	NA	NA

A taxable bond fund [illegible] S[illegible] if on in net assets and, if open end, is at least 12 months old. It will be graded only if in operation since 9/30/81. Long-term average total return [illegible] last 12 months' income dividends divided by 6/30/88 net asset value; it may differ from "yield" as defined by the S[illegible] *Expense ratio is in italics if [illegible] paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* • Fund rated for two periods only; maximum allowable grade A. *Fund [illegible] ††Closed to new investors. p: Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to fund. r: Includes ba[illegible] distributor. NA: Not applicable or not available. [1]Formerly ISI Income Fund. [2]Formerly Vanguard Qualified Dividend III. [3]Formerly Vanguard Q[illegible]

Table of distributors, showing addresses and phone numbers, begins on page 250.

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Municipal bond funds

We rate municipal bond funds over one full cycle (one up period and one down period) in the municipal bond market, May 31, 1984 to June 30, 1988. Longer-term funds were graded separately from the rest. In the long-term group we adjusted one-state funds (such as Shearson New York Municipals) upward to compensate for their handicap of not being able to buy nationally. The remaining funds, with mediu and short-term portfolios, were graded separately. For the performance over the mostly bullish May 1984 to June 19 period was very sensitive to the maturity of their portfoli Here, the grades depend on how well a fund did in relation its portfolio's average maturity.

Four-year performance	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Maximum sales charge	Annual expense per $10
	Shearson Lehman municipal bond index		7.4%	7.8%				
	FORBES municipal bond composite		6.9%	7.0%				$0.82
	AARP Insured T-F Inc–Genl Bond/Scudder	11/84	7.3%	6.9%	$288	24%	none	$1.00
	AARP Insured T-F Inc–S-T Bond/Scudder	11/84	4.7	5.3	79	8	none	1.31p
	Alliance Tax-Free Inc–Hi Bracket/Alliance	12/86	8.1	7.0	104	NM	none	*1.26*
	Alliance Tax-Free Income–Hi Inc/Alliance	12/86	11.5	7.7	39	235	4.00%	*0.55p*
	Alliance Tax-Free Inc–Ins Calif/Alliance	11/85	5.6	7.3	42	63	4.00	*0.35p*
	Allstate Municipal Income Trust/closed end	9/87	—*	—*	310	—	NA	0.75p
	Allstate Municipal Inc Trust II/closed end	5/88	—*	—*	270	—	NA	0.88p
F	American Capital Muni Bond/American Cap	11/76	5.8	8.2	185	–1	4.75	0.70
	American Capital T-E–Hi Yld/American Cap	1/86	5.0	8.9	183	6	4.75	*0.78p*
	American Capital Tax-Ex–Ins/American Cap	1/86	2.1	6.8	34	1	4.75	*0.72p*
	American Funds Tax-Ex I–Md/American Funds	8/86	8.0	6.3	26	18	4.75	*0.32p*
	American Funds T-E II–Calif/American Funds	10/86	6.0	5.9	40	43	4.75	NA
	Benham Calif Tax-Free–Insured/Benham	1/87	5.1	7.4	28	181	none	NA
D	Benham Calif Tax-Free–Intermed/Benham	11/83	5.1	6.2	159	–4	none	0.67
D	Benham Calif Tax-Free–L-T/Benham	11/83	5.7	7.1	159	–15	none	0.65
	Benham National Tax-Free–L-T/Benham	8/84	4.2	7.3	28	16	none	0.50p
	Calif Investment-Tax-Free Inc/California Inv	12/85	6.1	7.3	39	1	none	0.58p
B	California Tax-Exempt Bonds/National Secs	5/83	6.5	7.3	91	1	4.50	0.77
B	Calvert Tax-Free Reserves–Limited/Calvert	4/81	5.5	5.6	157	–23	none	NA
I	Calvert Tax-Free Reserves–L-T/Calvert	8/83	4.9	7.3	44	–36	4.50	*0.83*
B	Cigna Municipal Bond Fund/Cigna	3/77	8.2	6.9	237	–10	5.00	*0.80*
	Colonial California Tax-Exempt/Colonial	6/86	6.0	7.3	123	8	4.75	*0.52p*
	Colonial Municipal Income Trust/closed end	3/87	5.8	8.3	233	–2	NA	0.80
	Colonial Tax-Exempt Trust/Colonial	9/86	8.6	7.2	28	21	4.75	*0.41p*
	Colonial T-E High Yield/Colonial	11/78	6.9	8.0	1,352	–1	4.75	*1.08*
	Colonial T-E Insured/Colonial	12/85	6.5	6.9	102	–14	4.75	*1.14*
	Columbia T-E Long-Term/Columbia	7/84	10.1	6.8	128	3	none	0.66

A municipal bond fund [illegible] in net assets and if open end is at least 12 months old. It will be graded only if in operation since 5/31/84. Yi is last 12 months' income [illegible] asset value if it has differ from yield as defined by the SEC. *Expense ratio is in italics if the fund has a sharehold paid 12b-1 plan* [illegible] *in force.* *Fund not in operation for full period. p Net of partial absorption of expenses by fund spon b Includes back end load [illegible] back end load that reverts to distributor. NA Not applicable or not available. NM Not meaningful.

Table of distributors, showing addresses and phone numbers, begins on page 250.

ur-year rmance	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Maximum sales charge	Annual expenses per $100
	Shearson Lehman municipal bond index		7.4%	7.8%				
	FORBES municipal bond composite		6.9%	7.0%				$0.82
A	Composite Tax-Exempt Bond/Murphey Favre	1/77	6.3%	7.5%	$90	5%	4.00%	*$0.85*
	Counsellors NY Muni Bond/Counsellors	4/87	4.8	5.6	28	393	none	0.52p
	DBL Tax-Free Fund–Limited Term/Drexel	4/85	6.8	6.7	76	–11	1.50	0.71
	DBL Tax-Free Fund–Long-Term/Drexel	7/86	3.9	7.2	29	–49	4.25	*1.25*
	Dean Witter Calif Tax-Free Inc/Dean Witter	7/84	6.2	6.3	397	4	5.00r	*1.35*
	Dean Witter NY Tax-Free Inc/Dean Witter	4/85	5.7	6.4	121	1	5.00r	*1.40*
B	Dean Witter Tax-Exempt Secs/Dean Witter	3/80	7.8	7.6	903	–9	4.00	0.52
A+	Delaware Group Tax-Free–USA[1]/Delaware	1/84	9.5	7.6	390	8	4.75	0.78
	Delaware Group T-F–USA Ins/Delaware	3/85	7.7	7.1	46	4	4.75	0.87p
D	DMC Tax-Free Income Trust–PA/Delaware	3/77	7.3	7.4	486	13	4.75	0.78
	Double Exempt Cap Conservation/Voyageur	10/85	5.6	5.3	28	9	2.25	0.84
C	Double Exempt Flex Fund/Voyageur	2/84	7.5	7.1	143	15	4.00	0.78
D	Dreyfus California Tax-Ex Bond/Dreyfus	7/83	5.1	7.4	1,207	–2	none	0.70
	Dreyfus General Tax-Exempt Bond/Dreyfus	3/84	6.0	7.3	34	–20	none	*0.80*
	Dreyfus Insured Tax-Exempt Bond/Dreyfus	6/85	5.7	7.1	178	–8	none	*0.90*
D	Dreyfus Intermediate Tax-Ex Bond/Dreyfus	8/83	5.6	7.2	1,035	–9	none	0.72
	Dreyfus Massachusetts T-E Bond/Dreyfus	6/85	5.5	7.2	86	1	none	0.79
	Dreyfus New York Ins T-E Bond/Dreyfus	2/87	5.3	7.1	32	84	none	NA
D	Dreyfus NY Tax-Exempt Bond/Dreyfus	7/83	5.0	7.4	1,493	–6	none	0.71
	Dreyfus NY T-E Intermed Bond/Dreyfus	6/87	4.8	6.5	29	NM	none	NA
	Dreyfus Short-Intermediate T-E/Dreyfus	4/87	5.3	5.8	63	575	none	NA
	Dreyfus Strategic Muni/closed end	9/87	—*	—*	445	—	NA	NA
D	Dreyfus Tax-Exempt Bond Fund/Dreyfus	10/76	6.6	7.6	3,321	–3	none	0.71
	Eaton Vance California Munis/Eaton Vance	12/85	4.3	7.1	200	1	6.00b,r	*1.96*
	Eaton Vance High Yield Munis/Eaton Vance	12/85	6.1	8.0	844	–6	6.00b,r	*1.78*
A	Eaton Vance Muni Bond Fund/Eaton Vance	3/78	7.5	7.5	57	3	4.75	0.82
	Empire Builder Tax-Free Bond Fund/ITB	6/84	6.9	6.4	59	20	4.75	1.34
	Federated Intermediate Municipal/Federated	12/85	4.6	6.4	92	–23	none	0.50p
D	Federated Tax-Free Income Fund/Federated	10/76	7.6	7.2	407	10	4.50	0.95
	Fidelity Calif Tax-Free–High Yield/Fidelity	7/84	6.6	7.1	416	–8	none	0.76
	Fidelity Calif Tax-Free–Insured/Fidelity	9/86	7.8	6.6	47	28	none	0.65p
B	Fidelity Mass Tax-Free–High Yield/Fidelity	11/83	6.0	7.6	572	–8	none	0.62
	Fidelity NY Tax-Free–High Yield/Fidelity	7/84	6.9	7.0	324	–9	none	0.67p
	Fidelity NY Tax-Free–Insured/Fidelity	10/85	6.9	6.7	156	–7	none	0.67p
	Fidelity Pennsylvania T-F–Hi Yld/Fidelity	8/86	6.9	7.2	48	23	none	0.63p
	Fidelity State Tax-Free–Michigan/Fidelity	11/85	7.6	7.2	147	5	none	0.72p

unicipal bond fund is included if it has at least $25 million in net assets and, if open-end, is at least 12 months old. It will be graded only if in operation since 5/31/84. Yield st 12 months' income dividends divided by 6/30/88 net asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-l 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* *Fund not in operation for full period. p: Net of partial absorption of expenses by fund sponsor. ncludes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not applicable or not available. [1]Formerly DMC Tax-Free ome–USA Insured.

ble of distributors, showing addresses and phone numbers, begins on page 250.

1988 Fund Ratings/Municipal Bond

Four-year performance	Fund/distributor	Date started	Investment results: Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Maximum sales charge	Annual expenses per $100
	Shearson Lehman municipal bond index		7.4%	7.8%				
	FORBES municipal bond composite		6.9%	7.0%				$0.82
	Fidelity State Tax-Free–Minnesota/Fidelity	11/85	7.4%	7.0%	$88	–10%	none	$0.79p
	Fidelity State Tax-Free–Ohio/Fidelity	11/85	7.3	7.1	135	6	none	0.79p
	Fidelity Tax-Free–Aggressive/Fidelity	9/85	7.6	8.1	403	–1	1.00%r	0.74p
D	Fidelity Tax-Free–High Yield/Fidelity	12/77	5.3	7.6	1,605	–15	none	0.62
	Fidelity Tax-Free–Insured/Fidelity	11/85	7.4	6.8	149	–3	none	0.62p
C	Fidelity Tax-Free–Ltd Term Munis/Fidelity	4/77	6.4	6.4	460	–13	none	0.74
B	Fidelity Tax-Free–Municipal Bond/Fidelity	8/76	7.7	7.1	951	–6	none	0.57
	Fidelity Tax-Free–Short-Term/Fidelity	12/86	3.3	4.9	60	1	none	0.60p
	Fidelity Texas Tax-Free/Fidelity	1/86	7.5	7.2	27	–13	none	1.04p
A	Financial Tax-Free Income Shs/Financial Prog	8/81	7.3	7.2	109	–7	none	0.77
	First Investors New York Tax-Free/First Inv	6/84	6.6	6.8	113	17	7.25	*1.10*
C	First Investors Tax-Exempt Fund/First Inv	8/77	8.1	7.4	905	14	7.25	*1.13*
	Flagship Tax-Ex–Arizona Double/Flagship	10/86	6.5	6.8	33	–1	4.20	*0.86*
	Flagship Tax-Ex–Georgia Double/Flagship	3/86	6.6	7.0	30	–15	4.20	*0.91*
	Flagship Tax-Ex–Kentucky Triple/Flagship	5/87	8.6	7.2	45	256	4.20	*0.51p*
	Flagship Tax-Exempt–Mich Triple/Flagship	6/85	7.7	7.0	76	–10	4.20	*0.94p*
	Flagship Tax-Exempt–NC Triple/Flagship	3/86	6.9	6.8	69	0	4.20	*0.83p*
	Flagship Tax-Exempt–Ohio Double/Flagship	6/85	8.3	6.9	159	–1	4.20	*0.88*
	Flagship Tax-Exempt–Penn Triple/Flagship	10/86	8.0	7.0	34	–1	4.20	*0.72*
	Flagship Tax-Exempt–Va Double/Flagship	3/86	7.6	6.7	31	–9	4.20	*0.88*
	Fortress High Yield Tax-Free Fund/Federated	4/87	4.5	8.1	25	36	1.75r	*1.01p*
	Franklin Calif Insured T-F Inc/Franklin	9/85	6.3	7.1	208	29	4.00	0.64
D	Franklin Calif Tax-Free Income/Franklin	2/77	6.5	7.7	7,806	–2	4.00	0.48
D	Franklin Federal Tax-Free Income/Franklin	9/83	9.1	8.3	2,989	19	4.00	0.52
	Franklin High Yield Tax-Free Inc/Franklin	3/86	11.6	9.3	231	NM	4.00	0.65
	Franklin Insured Tax-Free Income/Franklin	4/85	8.0	7.9	371	58	4.00	0.62
	Franklin Mass Insured T-F Inc/Franklin	4/85	8.4	7.3	104	24	4.00	0.80p
	Franklin Mich Insured T-F Inc/Franklin	4/85	8.9	7.4	319	25	4.00	0.72
	Franklin Minn Insured T-F Inc/Franklin	4/85	8.8	7.2	158	19	4.00	0.76p
B	Franklin New York Tax-Free Inc/Franklin	9/82	7.7	7.9	2,611	0	4.00	0.51
	Franklin Ohio Insured T-F Inc/Franklin	4/85	8.9	6.8	191	0	4.00	0.75
	Franklin Pennsylvania T-F Inc/Franklin	12/86	8.3	7.7	31	528	4.00	0.24p
	Franklin PR Tax-Free Income/Franklin	4/85	7.3	8.2	92	102	4.00	0.75
	General NY T-F Intermed Bond[1]/Dreyfus	11/84	5.5	5.5	48	–27	none	*1.00p*
D	GIT Tax-Free Trust–High Yield/GIT	12/82	7.1	7.2	40	–17	none	*1.14*
A	John Hancock Tax-Exempt Inc/Hancock	1/77	7.3	6.7	357	–3	4.75	*0.78*

[illegible] fund is [illegible] has at least $25 million in net assets and, if open end, is at least 12 months old. It will be graded only if in operation since 5/31/84. Yie[illegible] as defined by the SEC. *Expense ratio is in italics if the fund has a sharehold[illegible] pending or in force.* *Fund not in operation for full period. p Net of partial absorption of expenses by fund sponso[illegible] r Includes back end load that reverts to distributor. NA Not applicable or not available. NM Not meaningful. [1]Former [illegible] Bond.

[illegible] distributors, showing addresses and phone numbers, begins on page 250.

We're already making plans for the year 2000.

Consolidated Freightways is one freight transportation company that keeps its eyes firmly on the road but isn't afraid to think about things down the road. But we've been doing this for years. After all, we pioneered the use of doubles. We were the first to provide service to and from Canada, Mexico and Hawaii. And our extensive computer system is the most advanced in the industry. In fact, we're already experimenting with satellite communications between freight terminals and our central computers. And down the road we're planning mobile satellite transmitters between trucks and the CF computer system. So you can look forward to superior reliability, increased capacity and lower cost. At CF, the year 2000 isn't science fiction, it's business fact.

CONSOLIDATED FREIGHTWAYS, INC.

The CF Company

MILES AHEAD

1988 Fund Ratings/Municipal Bond

Four-year performance	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Maximum sales charge	Annual expenses per $100
	Shearson Lehman municipal bond index		7.4%	7.8%				
	FORBES municipal bond composite		6.9%	7.0%				50.82
	Hawaiian Tax-Free Trust/Aquila	2/85	6.7%	7.1%	$226	14%	4.00%	$0.77
A	Hutton California Municipal Fund/Shearson	6/83	6.7	7.3	174	–13	4.00	0.78
A+	Hutton National Municipal Fund/Shearson	6/83	7.1	7.7	988	–18	4.00	0.66
B	Hutton New York Municipal/Shearson	6/83	5.2	7.4	227	–15	4.00	0.83
	IDS California Tax-Exempt Fund/IDS	8/86	8.0	6.8	47	40	5.00	0.78
C	IDS High Yield Tax-Exempt Fund/IDS	5/79	7.7	7.8	3,913	2	5.00	0.60
	IDS Insured Tax-Exempt Fund/IDS	8/86	7.9	6.7	42	36	5.00	0.88p
	IDS Minnesota Tax-Exempt Fund/IDS	8/86	7.8	7.0	59	23	5.00	0.78p
	IDS New York Tax-Exempt Fund/IDS	8/86	8.0	6.8	26	35	5.00	0.88p
C	IDS Tax-Exempt Bond Fund/IDS	12/76	7.6	7.3	901	3	5.00	0.61
	Integrated Tax-Free–Stripes/Integrated	11/85	8.1	6.8	110	–15	4.75	*1.31*
D	Inv Trust of Boston–Mass T-F Inc/ITB	3/84	7.0	6.9	51	–3	4.25	*1.25p*
A	Kemper California Tax-Free Inc/Kemper	2/83	6.4	7.1	359	26	4.50	0.63
A	Kemper Municipal Bond Fund/Kemper	4/76	6.5	7.7	1,410	16	4.50	0.51
	Keystone America Tax-Free Inc/Keystone	4/87	3.1	7.4	199	NM	4.00r	*1.00*
	Keystone Tax-Exempt Trust/Keystone	10/85	6.9	7.1	504	2	4.00b	*1.65*
B	Keystone Tax-Free Fund/Keystone	1/78	6.4	7.8	893	–7	††	*1.70*
	Landmark New York T-F Inc/Landmark	9/86	4.6	6.1	71	–27	none	*1.28p*
	Limited Term Municipal–Natl/Thornburg	8/84	7.3	6.6	165	30	2.75	*1.15p*
	Lord Abbett California T-F Inc/Lord Abbett	9/85	7.7	7.2	79	18	4.75	*0.40p*
	Lord Abbett Tax-Free–National/Lord Abbett	4/84	9.1	7.3	269	2	4.75	0.62
	Lord Abbett Tax-Free–New York/Lord Abbett	4/84	8.0	7.3	126	8	4.75	0.66
C	Lutheran Brotherhood Muni Bond/Lutheran	1/76	8.4	7.2	286	7	5.00	0.91
	MacKay-Shields MainStay–T-F/NYLife	5/86	5.7	6.8	81	28	5.00r	*1.50p*
	Merrill Lynch California Tax-Ex/ML Funds	9/85	5.5	6.5	620	–5	4.00r	*1.16*
C	Merrill Lynch Muni–High Yield/ML Funds	11/79	7.1	7.8	1,469	–19	4.00	0.55
C	Merrill Lynch Muni–Insured/ML Funds	11/77	7.8	7.5	1,984	–11	4.00	0.52
B	Merrill Lynch Muni–Ltd Mat/ML Funds	11/79	4.8	5.4	567	–29	1.00	0.40
	Merrill Lynch Municipal Income/ML Funds	11/86	4.2	6.0	166	–22	2.00r	*1.05*
	Merrill Lynch NY Muni Bond/ML Funds	11/85	5.6	6.5	643	–8	4.00r	*1.16*
	MetLife-State Street High Inc T-E/MetLife	8/86	7.5	7.3	36	35	4.50	*1.25p*
	MFS Managed California Tax-Ex/Mass Finl	6/85	6.7	6.3	57	–3	4.75	*1.20*
D	MFS Managed Hi Yld Muni Bond/Mass Finl	2/84	4.6	8.8	336	–15	††	1.03
	MFS Managed M-S Tax-Ex–Md/Mass Finl	11/84	8.1	6.4	81	–1	4.75	*1.10*
	MFS Managed M-S Tax-Ex–Mass/Mass Finl	4/85	6.9	6.9	218	–6	4.75	*1.04*
	MFS Managed M-S Tax-Ex–NC/Mass Finl	11/84	6.6	6.7	112	3	4.75	*1.08*

A municipal bond fund is included if it has at least $25 million in net assets and, if open-end, is at least 12 months old. It will be graded only if in operation since 5/31/84. Yie[illegible] is [illegible] income dividends divided by 6/30/88 net asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a sharehold[illegible] [illegible] plan exceeding 0.1% (hidden load) pending or in force.* *Fund not in operation for full period. ††Closed to new investors. p: Net of partial absorption [illegible] b: Includes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not applicable or not availab[illegible]

[illegible] distributors, showing addresses and phone numbers, begins on page 250.

r-year rmance	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Maximum sales charge	Annual expenses per $100
	Shearson Lehman municipal bond index		7.4%	7.8%				
	FORBES municipal bond composite		6.9%	7.0%				$0.82
	MFS Managed M-S Tax-Ex–SC/Mass Finl	11/84	7.3%	7.0%	$38	21%	4.75%	$0.81
	MFS Managed M-S Tax-Ex–Va/Mass Finl	11/84	6.7	6.8	192	1	4.75	*1.04*
	MFS Managed M-S Tax-Ex–W Va/Mass Finl	10/84	7.0	7.3	38	6	4.75	0.79
B	MFS Managed Muni Bond Trust/Mass Finl	12/76	7.7	7.1	951	–1	4.75	0.64
	MFS Municipal Income Trust/closed end	11/86	7.8	8.1	320	0	NA	1.25
	Muni Bond Funds–California/Smith Barney	4/87	5.2	8.0	28	400	4.00	0.38p
	Muni Bond Funds–National/Smith Barney	9/86	8.0	8.0	92	23	4.00	0.35p
	MuniInsured Fund/closed end	10/87	—*	—*	73	—	NA	0.74
A	Mutual of Omaha T-F Inc/Mutual of Omaha	1/77	7.6	7.4	311	6	8.00	0.63
A	National Securities T-E Bonds/National Secs	11/76	7.9	7.5	83	–1	4.50	0.77
	Nationwide Tax-Free Fund/Nationwide	3/86	5.4	6.8	47	35	5.00r	*0.86p*
C	New England Tax-Exempt Inc/New England	5/77	7.3	6.4	128	1	4.50	*0.99*
	New York Muni Fund/Fundamental	4/81	3.4	7.2	226	–12	none	*2.04*
	Nuveen California Municipal Inc/closed end	4/88	—*	—*	56	—	NA	0.72
	Nuveen California Muni Value/closed end	10/87	—*	—*	175	—	NA	NA
	Nuveen California T-F–Spec Bond/Nuveen	7/86	6.9	7.0	30	55	4.00	0.70p
	Nuveen Insured T-F Bond–Natl/Nuveen	12/86	9.7	6.9	48	82	4.00	0.60p
B	Nuveen Municipal Bond Fund/Nuveen	11/76	8.8	7.1	908	19	4.00	0.64
	Nuveen Municipal Income Fund/closed end	4/88	—*	—*	81	—	NA	0.73
	Nuveen Municipal Value Fund/closed end	6/87	9.1	6.0	1,518	8	NA	0.94
	Nuveen New York Municipal Inc/closed end	4/88	—*	—*	27	—	NA	NA
	Nuveen New York Muni Value/closed end	10/87	—*	—*	110	—	NA	0.93
	Oppenheimer New York T-E/Oppenheimer	8/84	6.6	7.5	106	48	4.75	*0.87p*
B	Oppenheimer Tax-Free Bond/Oppenheimer	10/76	7.5	6.9	148	9	4.75	*0.78*
D	Pacific Horizon–Calif T-E Bond/Concord Finl	3/84	6.3	6.8	86	–8	4.50	*1.10*
	PaineWebber Calif Tax-Ex Inc/PaineWebber	9/85	7.4	7.0	157	–3	4.25	0.72
	PaineWebber Hi Yld Muni Bond/PaineWebber	6/87	8.8	7.2	50	113	4.25	0.12p
	PaineWebber Tax-Exempt Inc/PaineWebber	12/84	7.6	7.1	307	–20	4.25	0.75
	Pierpont Tax-Exempt Bond/Morgan Stanley	10/84	1.8[1]	6.4[1]	126[2]	–37	none	0.80p
	T Rowe Price Calif T-F Inc-Bond/Price	9/86	5.1	6.2	36	13	none	1.00p
	T Rowe Price Maryland T-F Bond/Price	3/87	7.1	6.0	81	191	none	0.96
	T Rowe Price New York T-F Bond/Price	8/86	7.2	6.4	29	26	none	1.00p
	T Rowe Price Tax-Free High Yield/Price	3/85	7.3	7.5	285	5	none	0.96
D	T Rowe Price Tax-Free Income Fund/Price	10/76	4.8	6.8	1,062	–13	none	0.65
C	T Rowe Price T-F Short Intermed/Price	12/83	4.9	5.3	297	0	none	0.74
	Principal Preservation–Tax-Ex Plus/Ziegler	7/84	1.3	7.2	98	–27	4.50	*1.20*

nicipal bond fund is included if it has at least $25 million in net assets and, if open-end, is at least 12 months old. It will be graded only if in operation since 5/31/84. Yield : 12 months' income dividends divided by 6/30/88 net asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-12b-1 plan exceeding 0.1% (hidden load) pending or in force.* *Fund not in operation for full period. p: Net of partial absorption of expenses by fund sponsor. cludes back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not applicable or not available. NM: Not meaningful. [1]Twelve hs to 1/31/88. [2]As of 1/31/88. Fund refuses to disclose current data.

le of distributors, showing addresses and phone numbers, begins on page 250.

1988 Fund Ratings/Municipal Bond

Four-year performance	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Maximum sales charge	Annual expenses per $100
	Shearson Lehman municipal bond index		7.4%	7.8%				
	FORBES municipal bond composite		6.9%	7.0%				$0.82
	Pru-Bache California Municipal/Pru-Bache	9/84	4.9%	6.6%	$148	4%	5.00%r	*$1.10p*
	Pru-Bache Muni–Arizona/Pru-Bache	9/84	6.2	6.5	52	3	5.00r	*1.23p*
	Pru-Bache Muni–Maryland/Pru-Bache	1/85	7.9	6.7	38	19	5.00r	*1.21p*
	Pru-Bache Muni–Massachusetts/Pru-Bache	9/84	7.2	6.8	44	11	5.00r	*1.17*
	Pru-Bache Muni–Michigan/Pru-Bache	9/84	4.5	6.8	40	–1	5.00r	*1.17p*
	Pru-Bache Muni–New York/Pru-Bache	9/84	5.3	6.6	305	–2	5.00r	*1.10*
	Pru-Bache Muni–North Carolina/Pru-Bache	2/85	4.9	6.6	43	13	5.00r	*1.08p*
	Pru-Bache Muni–Ohio/Pru-Bache	9/84	4.4	6.8	74	–2	5.00r	*1.27*
	Pru-Bache Muni–Pennsylvania/Pru-Bache	4/87	4.5	7.2	49	364	5.00r	*0.46p*
	Pru-Bache National Municipals/Pru-Bache	4/80	5.3	7.1	1,081	–6	5.00r	*1.01*
C	Putnam California Tax-Ex Inc/Putnam	6/83	8.2	7.5	1,178	5	4.75	0.52
	Putnam Massachusetts T-E Inc/Putnam	10/86	7.7	6.6	53	33	2.50r	NA
	Putnam Michigan Tax-Ex Inc/Putnam	10/86	7.4	6.6	27	35	2.50r	NA
C	Putnam New York Tax-Ex Inc/Putnam	9/83	9.2	7.3	1,004	1	4.75	0.55
	Putnam Ohio Tax-Exempt Inc/Putnam	10/86	8.0	6.8	79	43	2.50r	NA
C	Putnam Tax-Exempt Income/Putnam	11/76	8.6	7.3	986	4	4.75	0.51
	Putnam Tax-Free Income–Hi Yld/Putnam	9/85	6.5	7.0	583	2	5.00r	*1.78*
	Putnam Tax-Free Income–Insured/Putnam	9/85	6.6	6.1	268	3	5.00r	*1.61*
	Rochester Fund Municipals/Rochester	5/86	10.9	7.6	25	98	4.00	*1.20p*
	Safeco California Tax-Free Income/Safeco	8/83	7.1	7.0	31	12	none	0.72
A	Safeco Municipal Bond Fund/Safeco	11/81	8.0	7.4	198	7	none	0.61
B	Scudder California Tax-Free Fund/Scudder	7/83	7.4	6.9	158	1	none	0.88
	Scudder High Yield Tax-Free Fund/Scudder	1/87	7.0	8.0	56	178	none	0.40p
C	Scudder Managed Muni Bonds/Scudder	10/76	8.0	7.3	611	–5	none	0.63
D	Scudder NY Tax-Free Fund/Scudder	7/83	7.4	7.0	119	–5	none	0.95
D	Scudder Tax-Free Target–1990/Scudder	4/83	4.6	5.4	129	–2	none	0.80
D	Scudder Tax-Free Target–1993/Scudder	4/83	5.0	5.8	123	–13	none	0.80
	Scudder Tax-Free Target–1996/Scudder	4/85	6.6	6.2	33	25	none	1.06
	Seligman Calif Tax-Ex–Hi Yld/Seligman	11/84	6.7	7.2	54	–14	4.50	0.83
	Seligman Calif Tax-Exempt–Qual/Seligman	11/84	6.8	6.9	59	–6	4.50	0.77
	Seligman Penn Tax-Exempt–Qual/Seligman	7/86	7.5	6.8	31	–3	4.75	*0.58p*
	Seligman Tax-Exempt–Colorado/Seligman	5/86	7.3	6.8	71	–20	4.75	0.77p
	Seligman Tax-Exempt–Louisiana/Seligman	10/85	7.7	7.1	42	–21	4.75	0.73
	Seligman Tax-Exempt–Maryland/Seligman	10/85	8.0	6.6	47	–15	4.75	0.87
C	Seligman Tax-Exempt–Mass/Seligman	12/83	8.2	7.0	127	–10	4.75	0.79
	Seligman Tax-Exempt–Michigan/Seligman	7/84	7.6	7.1	105	–9	4.75	0.79

A municipal bond fund is included if it has at least $25 million in net assets and, if open-end, is at least 12 months old. It will be graded only if in operation since 5/31/84. Yield: past 12 months' income dividends divided by 6/30/88 net asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* *Fund not in operation for full period. p: Net of partial absorption of expenses by fund sponsor. [illegible] back-end load that reverts to fund. r: Includes back-end load that reverts to distributor. NA: Not applicable or not available.

Table of distributors, showing addresses and phone numbers, begins on page 250.

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Past performance is not an indication of future results.

1988 Fund Ratings/Municipal Bond

Four-year performance	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Maximum sales charge	Annual expense per $10
	Shearson Lehman municipal bond index		7.4%	7.8%				
	FORBES municipal bond composite		6.9%	7.0%				$0.82
C	Seligman Tax-Exempt–Minnesota/Seligman	12/83	7.2%	7.0%	$132	6%	4.75%	$0.89
	Seligman Tax-Exempt–Missouri/Seligman	7/86	7.2	6.8	59	–9	4.75	0.82p
	Seligman Tax-Exempt–National/Seligman	12/83	7.2	7.5	131	–7	4.75	0.74
B	Seligman Tax-Exempt–New York/Seligman	12/83	5.7	7.1	73	–9	4.75	0.77
A	Seligman Tax-Exempt–Ohio/Seligman	12/83	8.6	7.2	122	–5	4.75	0.78
	Seligman Tax-Exempt–Oregon/Seligman	10/86	7.9	6.7	26	–5	4.75	0.52p
C	Shearson Lehman Calif Munis/Shearson	4/84	7.8	7.3	152	–10	5.00	0.64
B	Shearson Lehman Managed Munis/Shearson	3/81	8.3	7.7	575	–16	5.00	0.57
A	Shearson Lehman NY Munis/Shearson	1/84	7.0	7.4	207	–11	5.00	0.68p
	Shearson Lehman–Tax-Ex Inc/Shearson	9/85	7.9	6.9	448	0	5.00r	*1.57*
	State Bond Tax-Exempt Fund/State Bond	5/84	7.0	7.4	40	18	4.50	0.96
A	SteinRoe T-E Income–High Yield/Stein Roe	3/84	8.6	7.7	201	–4	none	0.73
	SteinRoe T-E Inc–Intermediate/Stein Roe	10/85	5.5	5.6	97	–11	none	0.80p
B	SteinRoe Tax-Exempt Inc–Mngd/Stein Roe	1/77	7.5	7.0	468	–5	none	0.65
D	Tax-Ex Bond Fund of America/American Funds	10/79	7.1	6.9	337	2	4.75	0.57
	Tax-Free Trust of Arizona/Aquila	3/86	7.8	7.2	83	12	4.00	0.34
	Tax-Free Trust of Oregon/Aquila	6/86	9.3	6.8	99	11	4.00	0.55p
	Thomson McKinnon Inv–Tax-Ex/Thomson	11/85	5.7	6.2	65	–8	5.00r	*1.90*
A+	United Municipal Bond Fund/Waddell & Reed	11/76	9.1	7.2	461	5	4.25	0.58
	United Municipal High Inc/Waddell & Reed	1/86	3.9	8.9	106	64	4.25	0.86
B	USAA Tax-Exempt–High Yield/USAA	3/82	7.1	7.7	858	–1	none	0.51
C	USAA Tax-Exempt–Intermediate/USAA	3/82	7.2	7.1	359	6	none	0.56
C	USAA Tax-Exempt–Short-Term/USAA	3/82	4.9	5.9	248	–3	none	0.56
	UST Master Tax-Ex–Intermed/Boston Co	12/85	9.1	6.3	54	51	none	0.66
	Value Line Tax-Exempt–Hi Yld/Value Line	3/84	6.8	7.9	251	–7	none	0.64
	Van Kampen Merritt Cal Ins T-F/Van Kampen	12/85	6.0	6.8	36	38	4.90	*0.14p*
	Van Kampen Merritt Ins T-F/Van Kampen	12/84	7.9	7.0	521	2	4.90	*0.71*
	Van Kampen Merritt T-F Hi Inc/Van Kampen	6/85	7.2	8.2	394	24	4.90	*0.74*
	Vanguard California T-F–Ins L-T/Vanguard	4/86	7.0	6.8	105	12	none	0.31
A	Vanguard Muni Bond–High Yield/Vanguard	12/78	7.7	7.7	696	–14	none	0.26
	Vanguard Muni Bond–Ins L-T/Vanguard	9/84	8.3	7.4	729	–8	none	0.26
B	Vanguard Muni Bond–Intermed/Vanguard	9/77	7.9	6.8	804	–11	none	0.26
B	Vanguard Muni Bond–Long-Term/Vanguard	9/77	7.7	7.5	542	–14	none	0.26
C	Vanguard Muni Bond–S-T/Vanguard	9/77	5.1	5.0	849	–22	none	0.26
	Vanguard New York Insured T-F/Vanguard	4/86	6.0	6.8	89	11	none	0.35
	Vanguard Penn Tax-Free–Ins L-T/Vanguard	4/86	7.7	7.0	227	12	none	0.31
	Venture Muni [illegible] Plus/Venture	2/82	8.9	8.3	56	12	5.00r	*2.49*

A municipal [illegible] included if it has at least $25 million in net assets and, if open end, is at least 12 months old. It will be graded only if in operation since 5/31/84. Yie[illegible] is last 12 months [illegible] dividends divided by 6/30/88 net asset value; it may differ from "yield" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholde[illegible] paid 12b-1 plan [illegible] 9/1/[illegible] (redeem load) pending or in force.* *Fund not in operation for full period. p: Net of partial absorption of expenses by fund sponso[illegible] b: Includes back [illegible] reverts to fund. r: Includes back end load that reverts to distributor. NA: Not applicable or not available.

Table of distributors, showing addresses and phone numbers, begins on page 250.

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Money market funds

Money market funds are divided below into taxable and tax-exempt funds. Within each group, funds get pretty much the same yields on the paper they buy, but their returns differ because their overhead differs. Look at the expense column on the right. Taxable funds specializing in U.S. Treasury paper are marked with a •. These funds offer less risk w only slight, if any, yield penalties. The listing of tax-exen money market funds begins on page 242. For more infor tion on a fund, contact the distributor listed after the nar table of distributors starts on page 250.

Portfolio average maturity days	Fund/distributor	Date started	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Minimum initial investment	Annua expense per $10
	FORBES taxable money fund composite		6.4%				$0.71
	FORBES tax-exempt money fund composite		4.3%				$0.64
	Taxable money market funds						
46	Active Assets Money Trust/Dean Witter	7/81	6.6%	$2,535	10%	†	*$0.54*
56	Alliance Capital Reserves/Alliance	7/78	6.3	1,388	–5	$1,000	*0.95*
32	Alex Brown Cash Reserve–Prime/Brown	8/81	6.5	866	4	1,500	*0.55*
42	•Capital Preservation Fund/Benham	10/72	5.9	2,093	18	1,000	0.63
24	Cash Accumulation–Natl MM/Thomson	11/84	6.5	2,009	7	500	*0.73*
12	•Cash Equivalent Fund–Govt/Kemper	12/81	6.4	1,309	37	1,000	*0.68*
29	Cash Equivalent Fund–MM/Kemper	3/79	6.4	5,829	6	1,000	*0.81*
21	Cash Mgmt Trust of America/American Funds	11/76	6.5	1,085	51	5,000	*0.51*
32	Cash Reserve Management/Shearson	1/77	6.6	3,119	–18	10,000	0.61
32	•CMA Government Securities/MLPF&S	8/81	6.0	2,193	14	†	*0.59*
37	CMA Money Fund/MLPF&S	9/77	6.4	19,478	9	†	*0.55*
44	Command Money Fund/Command	2/82	6.5	1,568	13	†	*0.66*
21	Current Interest–Money Market/Criterion	6/74	5.9	501	–32	1,000	*1.06*
20	Daily Cash Accumulation Fund/Centennial	7/78	6.4	2,699	7	500	*0.78*
31	Daily Income Fund/Reich & Tang	7/74	6.4	509	3	5,000	*0.65*
61	DBL Cash Fund–Money Market/Drexel	2/81	6.5	1,502	5	1,000	0.63
42	Dean Witter/Sears Liquid Asset/Dean Witter	9/75	6.6	8,078	19	5,000	*0.62*
36	•Dean Witter/Sears US Govt MM/Dean Witter	2/82	6.1	622	16	1,000	*0.82*
23	Delaware Group Cash Reserve/Delaware	6/78	6.4	1,196	22	1,000	0.88
61	Dreyfus Liquid Assets/Dreyfus	1/74	6.5	7,222	0	2,500	0.69
34	•Dreyfus MM Instrum–Govt Secs/Dreyfus	5/79	6.0	736	–11	2,500	0.65
55	Fidelity Cash Reserves/Fidelity	5/79	6.1	9,448	44	1,000	0.67
32	Fidelity Daily Income Trust/Fidelity	5/74	6.4	2,875	3	5,000	0.70
25	Fidelity Select–Money Market/Fidelity	8/85	6.3	865	26	1,000	0.88
56	•Fidelity US Government Reserves/Fidelity	11/81	6.3	1,375	60	1,000	0.79
25	Franklin Money Fund/Franklin	1/76	6.3	1,228	15	500	0.79

[illegible] money market fund is added to this list if it has at least $500 million in net assets and is at least 12 months old, a fund is dropped when its assets fall below $500 [illegible] The [illegible] must have a minimum initial investment of less than $100,000. Yield is last 12 months' income dividends divided by 6/30/88 net asset value; it may differ fr [illegible] is derived by the SEC. *Expense ratio is in italics if the fund has a shareholder paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* • Specialize [illegible] paper. ‡ Net of partial absorption of expenses by fund sponsor. NA Not applicable or not available. †Fund is offered as part of an integrated finan [illegible] has a minimum initial investment.

Table of distributors, showing addresses and phone numbers, begins on page 250.

'ortfolio average naturity days	Fund/distributor	Date started	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Minimum initial investment	Annual expenses per $100
	FORBES taxable money fund composite		6.4%				$0.71
	FORBES tax-exempt money fund composite		4.3%				$0.64
	Taxable money market funds						
50	•Fund for Govt Investors/Rushmore	3/75	5.9%	$658	7%	$2,500	$0.80
44	General Money Market Fund/Dreyfus	2/82	6.3	769	18	2,500	*0.97*
32	Hutton AMA Cash Fund/Shearson	3/82	6.6	1,957	–12	†	0.60
31	•Hutton Government Fund/Shearson	6/82	6.1	1,024	–12	10,000	0.91
30	Hutton Investment–S-T Inv/Shearson	1/82	6.6	744	108	500	*0.77*p
22	IDS Cash Management Fund/IDS	10/75	6.4	1,108	29	2,000	0.71p
52	ED Jones Daily Passport Cash/Jones & Co	3/80	6.2	795	29	1,000	1.03
28	Kemper Money Market–MM/Kemper	11/74	6.7	4,835	16	1,000	0.52
41	Kidder Peabody Premium Account/Kidder	5/82	6.6	883	15	†	0.57
27	•Liberty US Govt Money Market/Federated	6/80	6.1	1,316	–9	500	1.01
35	Liquid Capital Income Trust/Carnegie	11/74	6.3	1,216	–2	1,000	0.72
23	Mass Cash Management–Prime/Mass Finl	12/75	6.4	687	11	1,000	0.80
41	•Merrill Lynch Government Fund/ML Boston	9/77	6.1	1,526	–6	5,000	0.45
34	Merrill Lynch Institutional Fund/ML Boston	12/74	6.3	1,473	19	25,000	0.44
36	Merrill Lynch Ready Assets/ML Funds	2/75	6.3	9,522	–9	5,000	*0.53*
31	Merrill Lynch Retire Res Money/ML Funds	4/82	6.2	3,327	11	none	0.89
38	National Liquid Reserves–Cash/Smith Barney	8/74	6.5	1,343	–3	1,500	0.56
40	New England Cash Mgmt–MM/New England	7/78	6.4	824	20	1,000	0.74
21	Oppenheimer Money Market/Oppenheimer	4/74	6.3	671	10	1,000	0.86
46	•Pacific Horizon–Govt MM/Concord Finl	3/84	6.2	898	–31	1,000	*0.56*
26	Pacific Horizon–Money Market/Concord Finl	3/84	6.6	8,016	979	1,000	*0.58*
32	PaineWebber Cashfund/PaineWebber	5/78	6.5	3,988	–1	5,000	0.57
34	PaineWebber RMA–MM/PaineWebber	10/82	6.3	2,509	16	†	0.76
NA	Pierpont Money Market/Morgan Stanley	11/83	6.5[1]	1,667[2]	46	25,000	0.54
34	T Rowe Price Prime Reserve Fund/Price	3/76	6.5	3,475	14	1,000	0.82
39	Pru-Bache Moneymart Assets/Pru-Bache	6/76	6.4	5,075	21	1,000	*0.69*
31	Putnam Daily Dividend Trust/Putnam	9/76	6.2	644	34	1,000	1.01
16	Quest for Value Cash Management/Quest	1/87	6.4	501	54	500	*0.74*
18	Reserve Fund–Primary/Reserve	11/71	6.2	1,621	12	1,000	*0.98*
41	Scudder Cash Investment Trust/Scudder	7/76	6.4	1,368	20	1,000	0.75
52	Shearson FMA Cash Fund/Shearson	2/82	6.6	1,699	17	†	0.66
48	•Shearson FMA Government Fund/Shearson	2/82	6.3	621	37	†	0.64
56	•Shearson Government & Agencies/Shearson	10/80	6.5	1,999	9	2,500	0.61
46	Shearson Lehman Daily Dividend/Shearson	6/79	6.2	4,393	19	2,500	0.80
34	Short-Term Income–MM/Reich & Tang	1/80	6.3	744	–1	5,000	*0.77*

axable money market fund is added to this list if it has at least $500 million in net assets and is at least 12 months old; a fund is dropped when its assets fall below $500 mil-n. The fund must have a minimum initial investment of less than $100,000. Yield is last 12 months' income dividends divided by 6/30/88 net asset value; it may differ from eld" as defined by the SEC. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* • Specializes in government paper. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. †Fund is offered as part of an integrated financial vice account that has a minimum initial investment. [1]Twelve months to 5/31/88. [2]As of 5/31/88. Fund refuses to disclose current data.

ıble of distributors, showing addresses and phone numbers, begins on page 250.

1988 Fund Ratings/Money Market

Portfolio average maturity days	Fund/distributor	Date started	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Minimum initial investment	Annual expense per $10
	FORBES taxable money fund composite		6.4%				$0.71
	FORBES tax-exempt money fund composite		4.3%				$0.64
	Taxable money market funds						
45	SteinRoe Income–Cash Reserves/Stein Roe	9/76	6.4%	$930	17%	$1,000	$0.72
37	•Summit Cash Reserves Fund/ML Funds	12/82	6.3	642	0	5,000	0.79
25	Transamerica Cash Reserve/Transamerica	8/80	6.6	530	54	500	0.49
33	Tucker Anthony Cash Mgmt/Tucker Anthony	4/81	6.2	754	8	1,000	0.85
20	USAA Mutual–Money Market/USAA	2/81	6.5	624	41	1,000	0.75
33	Value Line Cash Fund/Value Line	4/79	6.6	546	10	1,000	0.72
35	•Vanguard MM Reserves–Federal/Vanguard	7/81	6.5	1,060	69	1,000	0.37
36	Vanguard MM Reserves–Prime/Vanguard	6/75	6.9	5,218	68	1,000	0.37
39	Vantage Money Market–Cash/Smith Barney	10/82	6.4	559	25	†	0.80
42	Webster Cash Reserve Fund/Kidder	8/79	6.4	1,499	0	1,500	0.63
	Tax-exempt money market funds						
17	Active Assets Tax-Free Trust/Dean Witter	7/81	4.4	1,043	–1	†	*0.58*
50	Alliance Tax-Exempt Res–General/Alliance	1/83	4.2	657	–19	1,000	*0.80*
38	Alliance Tax-Exempt Reserves–NY/Alliance	10/86	3.7	41	–42	none	*0.87*
5	Benham Calif Tax-Free–MM/Benham	11/83	3.9	296	–4	1,000	0.67
15	Benham National Tax-Free–MM/Benham	1/84	4.2	69	–14	1,000	0.31
65	Boston Co T-F Muni–Mass MM/Boston Co	7/83	4.2	146	7	1,000	*0.64*
36	Boston Co Tax-Free Muni–Money/Boston Co	8/83	4.0	37	–6	1,000	*0.92*
57	California Daily Tax-Free Inc/Reich & Tang	2/87	4.2	75	8	5,000	0.53
[illegible]	Calif Investment-Tax-Free MM/California Inv	12/85	4.6	56	80	10,000	0.32
35	Calvert Tax-Free Reserves–MM/Calvert	4/81	4.7	720	0	2,000	0.62
25	Cardinal Tax-Exempt Money/Ohio Co	9/83	4.1	70	–11	1,000	0.74
46	Carnegie Tax-Free Income Trust/Carnegie	8/82	4.4	307	–5	1,000	0.59
45	Cash Accumulation–Natl T-E/Thomson	11/84	4.2	273	–15	500	*0.66*
1	Centennial Tax-Exempt Trust/Centennial	9/81	4.3	518	11	500	*0.80*
54	Cigna Tax-Exempt Cash Fund/Cigna	1/82	4.1	60	1	1,000	*0.72*
48	CMA Tax Exempt Fund/MLPF&S	1/81	4.3	7,989	3	†	*0.54*
43	Colonial Tax-Exempt–MM/Colonial	6/87	4.8	55	NM	250	0.31
66	Command Tax-Free Fund/Command	2/82	4.3	676	–2	†	*0.70*
2	Connecticut Daily Tax-Free Inc/Reich & Tang	5/85	3.9	243	1	5,000	*0.76*
44	Cortland Trust–Tax-Free MM/Cortland	6/85	4.1	82	–1	1,000	*0.70*
	Counsellors New York Tax-Ex/Counsellors	4/85	4.1	58	–34	1,000	0.46
54	Current Interest Tax-Free/Criterion	5/83	4.1	80	–19	1,000	*0.84*
	Daily Tax-Free Income Fund/Reich & Tang	11/82	4.3	865	–23	5,000	0.76

[illegible] money market funds added to this list if it has at least $25 million in net assets and is at least 12 months old; a fund is dropped when its assets fall below $25 [illegible] [illegible] has a minimum initial investment of less than $100,000. Yield is last 12 months' income dividends divided by 6/30/88 net asset value; it may differ fr[illegible] *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* • Specializes [illegible] absorption of expenses by fund sponsor. NA: Not applicable or not available. NM: Not meaningful. †Fund is offered as par[illegible] that has a minimum initial investment.

[illegible] distributors, showing addresses and phone numbers, begins on page 250.

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1988 Fund Ratings/Money Market

Portfolio average maturity days	Fund/distributor	Date started	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Minimum initial investment	Annua expense per $10
	FORBES taxable money fund composite		6.4%				$0.71
	FORBES tax-exempt money fund composite		4.3%				$0.64
	Tax-exempt money market funds						
68	DBL Tax-Free Fund–Money Market/Drexel	4/83	4.4%	$544	0%	$1,000	$0.63
19	Dean Witter/Sears T-F Daily Inc/Dean Witter	2/81	4.4	941	–1	5,000	*0.61*
20	Delaware Group Tax-Free–Money/Delaware	9/81	4.2	71	1	5,000	*0.72*
38	Dreyfus California Tax-Ex MM/Dreyfus	1/86	4.2	341	19	2,500	0.60
25	Dreyfus General Calif T-E Money/Dreyfus	3/87	4.5	97	795	2,500	*0.34*
67	Dreyfus General NY T-E Money/Dreyfus	12/86	4.1	85	83	2,500	0.40
66	Dreyfus New York Tax-Ex MM/Dreyfus	6/87	4.3	395	NM	2,500	NA
41	Dreyfus Tax-Exempt MM/Dreyfus	8/80	4.2	2,587	–11	2,500	0.56
11	Eaton Vance Tax-Free Reserves/Eaton Vance	12/82	4.2	69	17	1,000	0.75
86	Empire Tax-Free Money Market/Reich & Tang	5/84	4.0	205	–10	5,000	*0.79*
47	Federated Tax-Free Trust/Federated	3/79	4.4	2,813	–22	25,000	0.44
45	FFB Tax-Free Money Market/Furman Selz	9/86	4.2	134	19	1,000	*0.61*
34	Fidelity Calif Tax-Free–MM/Fidelity	7/84	4.2	567	16	2,500	0.58
52	Fidelity Mass Tax-Free–MM/Fidelity	11/83	4.1	612	11	2,500	0.61
46	Fidelity NY Tax-Free–MM/Fidelity	7/84	4.2	643	32	2,500	0.56
48	Fidelity Pennsylvania T-F–MM/Fidelity	8/86	4.3	73	61	2,500	0.50
37	Fidelity Tax-Exempt–MM/Fidelity	1/80	4.4	3,453	–10	5,000	0.46
33	Financial Tax-Free Money Fund/Financial Prog	5/83	4.1	28	0	250	0.86
45	First Investors Tax-Exempt MM/First Inv	6/83	4.1	38	–5	1,000	*0.76*
30	First Lakeshore T-E Money Market/Dreyfus	2/86	4.4	131	–10	1,000	*0.96*
36	Flag Inv T-F Cash Reserve Shs/Brown	3/83	4.3	232	–5	1,500	*0.43*
36	Franklin Calif Tax-Exempt Money/Franklin	9/85	4.6	681	89	500	0.58
85	Franklin New York Tax-Ex Money/Franklin	1/86	4.1	54	39	500	0.51
94	Franklin Tax-Exempt Money Fund/Franklin	2/82	4.6	209	23	500	*0.72*
65	Fund for Tax-Free Inv–MM/Rushmore	9/83	4.0	34	–19	2,500	0.80
46	General Tax-Exempt MM/Dreyfus	12/83	4.2	402	–30	2,500	0.59
55	IDS Tax-Free Money Fund/IDS	8/80	4.0	118	–8	2,000	0.69
55	Kidder Peabody Tax-Exempt MM/Kidder	7/83	4.4	794	–13	1,500	0.56
64	Landmark NY T-F Reserves/Landmark Funds	1/85	3.8	340	16	1,000	*0.80*
20	Landmark Tax-Free Reserves/Landmark Funds	1/84	4.2	144	2	1,000	*0.81*
45	Lazard Frères–Tax-Free MM/Lazard	10/82	4.4	296	–25	2,500	*0.60*
32	Legg Mason Tax-Exempt Trust/Legg Mason	7/83	4.1	99	7	5,000	*0.74*
55	Lehman Mgmt T-F Reserves/Shearson	1/86	4.1	101	–17	1,000	0.70
79	Lexington Tax-Free Money Fund/Lexington	10/77	4.4	86	–7	1,000	0.74
70	McDonald Tax-Exempt MM/McDonald	8/85	4.1	107	1	500	NA

[illegible] money market fund is added to this list if it has at least $25 million in net assets and is at least 12 months old, a fund is dropped when its assets fall below $25 [illegible] must have a minimum initial investment of less than $100,000. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (ind[illegible]* [illegible] ● specializes in U.S. government paper. p Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not availa[illegible]

[illegible] distributors, showing addresses and phone numbers, begins on page 250.

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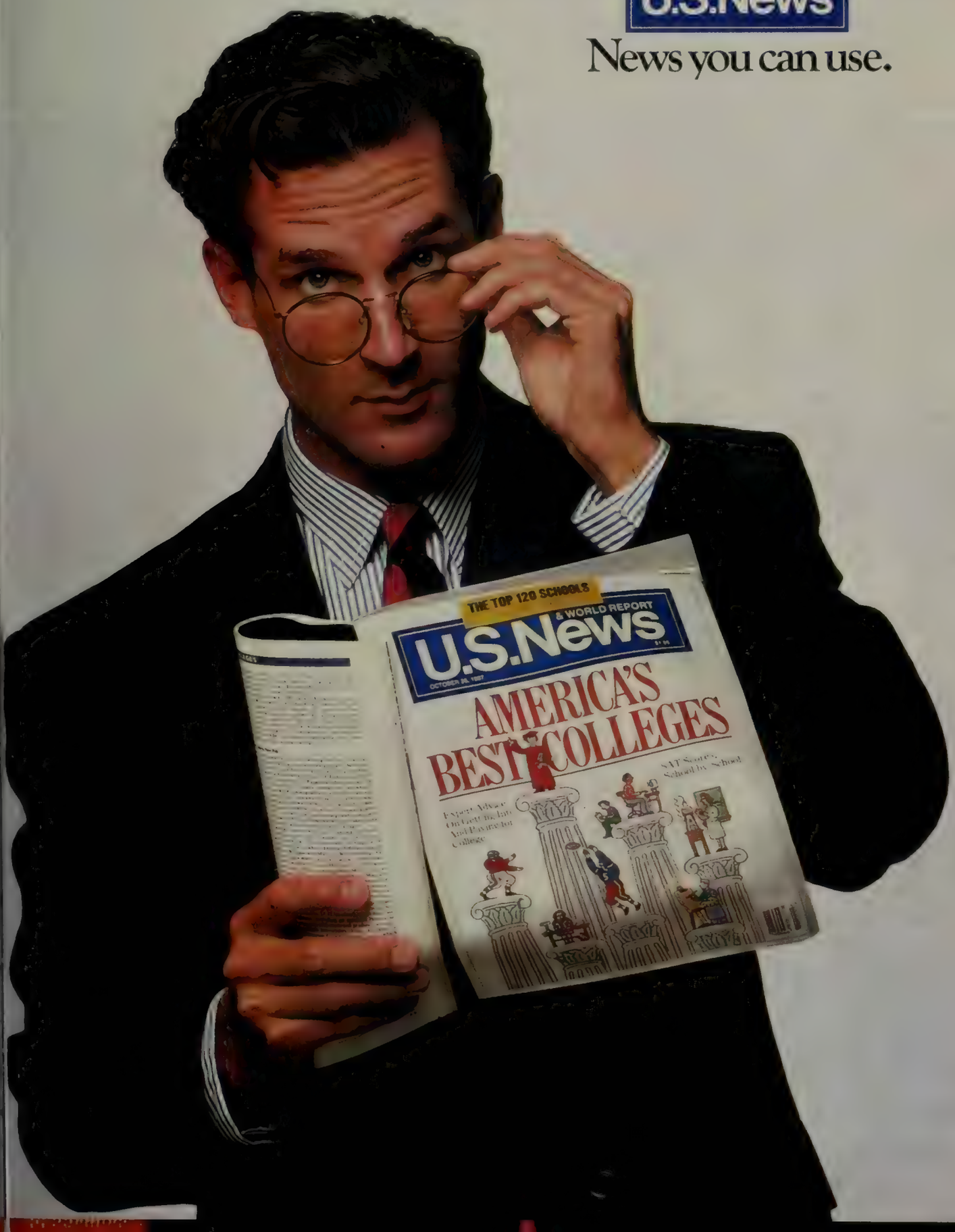

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1988 Fund Ratings/Money Market

Portfolio average maturity days	Fund/distributor	Date started	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Minimum initial investment	Annua expense per $10
	FORBES taxable money fund composite		6.4%				$0.71
	FORBES tax-exempt money fund composite		4.3%				$0.64
	Tax-exempt money market funds						
73	Midwest Group Tax-Free–MM/MGF	9/81	4.4%	$116	8%	$1,000	*$0.95*
41	Money Management Plus–Tax-Free/Calvert	10/84	4.4	125	–3	†	*0.88*
54	Municipal Cash Reserve Mgmt/Shearson	5/81	4.4	1,414	–31	10,000	0.49
44	Neuberger & Berman Muni M/Neuberger	12/84	4.4	227	18	2,000	0.68
74	New England Tax-Exempt MM/New England	1/83	4.3	66	15	1,000	0.57
47	Nuveen California Tax-Free–MM/Nuveen	4/86	4.3	208	–27	5,000	*0.54*
36	Nuveen Tax-Exempt MM/Nuveen	4/81	4.6	2,090	12	25,000	0.40
63	Nuveen Tax-Free MM–Mass/Nuveen	12/86	4.3	41	43	5,000	*0.48*
51	Nuveen Tax-Free Reserves/Nuveen	11/82	4.3	403	30	1,000	*0.73*
42	AT Ohio Tax-Free Money Fund/Federated	7/85	4.2	232	2	25,000	0.61
23	Pacific Horizon–Tax-Ex MM/Concord Finl	3/84	4.1	44	–56	1,000	*0.84*
36	PaineWebber RMA–Tax-Free/PaineWebber	10/82	4.2	941	0	†	0.62
NA	Pierpont Tax-Exempt MM/Morgan Stanley	9/83	3.9[1]	1,132[2]	–3	25,000	0.56
27	T Rowe Price Calif T-F Inc–Money/Price	9/86	4.2	63	68	2,000	0.80
44	T Rowe Price New York T-F Money/Price	8/86	3.8	39	48	2,000	0.80
17	T Rowe Price Tax-Exempt Money/Price	4/81	4.4	1,204	–6	2,000	0.60
86	Pru-Bache Muni–New York MM/Pru-Bache	4/85	4.0	188	41	1,000	*0.73*
63	Pru-Bache Tax-Free Money Fund/Pru-Bache	8/79	4.5	714	1	1,000	*0.77*
43	Reserve New York Tax-Ex–NY/Resrv	11/83	3.7	86	–4	1,000	*1.00*
49	Reserve Tax-Exempt–Connecticut/Resrv	5/85	3.9	240	2	1,000	*0.90*
43	Reserve Tax-Exempt–Interstate/Resrv	11/83	4.2	378	35	1,000	*1.00*
32	Safeco Tax-Free Money Market/Safeco	8/84	4.3	34	8	1,000	0.64
29	St Clair Tax-Free–Money Market/Fairfield	9/85	4.3	50	–25	500	0.68
16	Scudder California Tax-Free Money/Scudder	6/87	4.5	51	NM	1,000	0.45
44	Scudder NY Tax-Free Money Fund/Scudder	6/87	4.3	30	NM	none	0.50
56	Scudder Tax-Free Money Fund/Scudder	1/80	4.2	381	–4	1,000	0.60
43	Shearson Daily Tax-Free Dividend/Shearson	10/82	4.4	766	3	2,500	0.80
46	Shearson FMA Municipal Fund/Shearson	3/82	4.5	1,062	5	†	0.62
21	Shearson Lehman Calif Daily T-F/Shearson	11/85	4.3	199	30	2,500	0.70
57	Shearson Lehman NY Daily T-F/Shearson	11/85	4.0	217	27	2,500	0.70
51	Standby Tax-Exempt Reserve/Cowen	4/86	4.0	65	8	2,000	0.5
23	SteinRoe Tax-Exempt Inc–Money/Stein Roe	3/83	4.2	294	4	1,000	0.69
61	Strong Tax-Free Money Market/Strong	10/86	4.7	70	73	2,500	1.00
18	Tax-Exempt California MM/Kemper	6/87	4.2	96	709	1,000	*0.6*
16	Tax-Exempt Money Market Fund/Kemper	7/82	4.4	1,746	2	1,000	0.6

[illegible] money market fund is added to this list if it has at least $25 million in net assets and is at least 12 months old, a fund is dropped when its assets fall below $25 [illegible] that has a minimum initial investment of less than $100,000. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hu[illegible]* [illegible] ● Specializes in U.S. government paper. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not avail[illegible] [illegible] is offered as part of an integrated financial service account that has a minimum initial investment. [1]Twelve months to 8/31/87. [2]As of 2/2[illegible] [illegible] data.

Table of distributors, showing addresses and phone numbers, begins on page 250.

Portfolio average maturity days	Fund/distributor	Date started	Latest 12 months return from income dividends	Total assets 6/30/88 (millions)	Total assets % change '88 vs '87	Minimum initial investment	Annual expenses per $100
	FORBES taxable money fund composite		6.4%				$0.71
	FORBES tax-exempt money fund composite		4.3%				$0.64
	Tax-exempt money market funds						
40	Tax-Free Instruments Trust/Federated	12/82	4.3%	$1,296	–8%	$500	$0.55p
46	Tax-Free Money Fund/Smith Barney	4/81	4.3	1,046	–6	5,000	0.48
30	Tucker Anthony T-E Money/Tucker Anthony	12/82	4.2	227	–5	1,000	0.48p
51	UMB Tax-Free Money Market/Jones & Babson	12/82	4.3	67	–12	1,000	0.53
52	USAA Tax-Exempt Fund–MM/USAA	2/84	4.6	622	21	10,000	0.43
35	UST Master Tax-Exempt–S-T/Boston Co	5/85	4.6	563	9	10,000	0.52
62	Value Line Tax-Exempt–MM/Value Line	3/84	4.2	48	–22	1,000	0.89
62	Vanguard California T-F–MM/Vanguard	6/87	4.6	166	NM	3,000	0.33
62	Vanguard Muni Bond–MM/Vanguard	6/80	4.7	2,139	18	3,000	0.26

tax-exempt money market fund is added to this list if it has at least $25 million in net assets and is at least 12 months old; a fund is dropped when its assets fall below $25 million. The fund must have a minimum initial investment of less than $100,000. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* ● Specializes in U.S. government paper. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. NM: Not meaningful.

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Fund distributors

Below are addresses and phone numbers of mutual fund distributors, the firms that market mutual funds. Call or write the distributor to get the prospectus, the most recent annual or semiannual report and, if you like reading fine print, the "statement of additional information." If the fund carries a sales load, your stockbroker may also have this literature. A fund without a separate distributor is listed under the name of the fund itself. Closed-end funds are traded like shares of industrial companies and do no have distributors. "Exchange privilege" refers to the op tion to switch from one fund to others in the same family in some cases that other fund is too small to be listed here (For example, taxable money market funds have to have a least $500 million in assets to appear.) The key on th bottom of this page lists fund types. The type for the Acor Fund, for instance, is "ST," or stock fund.

Distributor	Type of fund
Accrued Equities 295 Northern Boulevard Great Neck, NY 11021 (516) 466-0808* (local) Exchange privilege: No	
New Alternatives Fund	ST
Acorn Fund 2 North LaSalle Street Suite 500 Chicago, IL 60602-3790 (312) 621-0630* (local) Exchange privilege: Yes	
Acorn Fund	ST
Adtek Fund 4920 West Vliet Street Milwaukee, WI 53208 (414) 257-1842 (local) Exchange privilege: No	
Adtek Fund	BA
Advest Group 280 Trumbull Street Hartford, CT 06103 (800) 842-3807 (local) (800) 243-8115 (out of state) Exchange privilege: Yes	
Advantage Government Securities	BD
Advantage Growth Fund	ST
Advantage Income Fund	BA
AFA Distributors 50 Broad Street New York, NY 10004 (212) 482-8100* (local) (800) 654-0001 (out of state) Exchange privilege: Yes	
National Aviation & Technology	ST
National Telecom & Technology	ST

Distributor	Type of fund
Afuture Fund 122 Willowbrook Lane West Chester, PA 19382 (215) 344-7910* (local) (800) 523-7594 (out of state) Exchange privilege: No	
Afuture Fund	ST
AIM Distributors 11 Greenway Plaza Suite 1919 Houston, TX 77046 (800) 392-9681 (local) (800) 231-0803 (out of state) Exchange privilege: Yes	
Aim Convertible Securities	BA
Charter Fund	ST
Constellation Growth Fund	ST
High Yield Securities	BD
Summit Investor's Fund	ST
Weingarten Equity Fund	ST
Fred Alger & Co 75 Maiden Lane New York, NY 10038 (800) 992-3863 (nationwide) Exchange privilege: Yes	
Alger Fund–Growth	ST
Alliance Fund Services 500 Plaza Drive Secaucus, NJ 07094 (800) 221-5672 (nationwide) Exchange privilege: Yes	
Alliance Balanced Shares	BA
Alliance Bond–High Yield	BD
Alliance Bond–Monthly Income Shs	BD
Alliance Bond–US Government	BD
Alliance Capital Reserves	MM
Alliance Convertible Fund	BA
Alliance Counterpoint Fund	ST
Alliance Dividend Shares	ST
Alliance Fund	ST
Alliance Global–Canadian Fund	FO
Alliance Global–World Equities	FO
Alliance International Fund	FO
Alliance Mortgage Securities Income	BD
Alliance Tax-Exempt Res–General	MM
Alliance Tax-Exempt Res–NY	MM
Alliance Tax-Free Inc–High Bracket	MU
Alliance Tax-Free Income–High Inc	MU
Alliance Tax-Free Income–Ins Calif	MU
Alliance Technology Fund	ST
Quasar Associates	ST
Surveyor Fund	ST

Distributor	Type of fund
AMA Advisers PO Box 1111 Blue Bell, PA 19422 (215) 825-0400 (local) (800) 262-3863 (out of state) Exchange privilege: Yes	
AMA Growth–Classic Growth	ST
AMA Growth–Global Growth	FO
AMA Growth–Growth plus Income	ST
AMA Income–Classic Income	BD
AMA Income–Global Short-Term	FO
Emerging Medical Technology Fund	ST
Medical Technology Fund	ST
American Capital Marketing 2800 Post Oak Boulevard Houston, TX 77056 (713) 993-0500* (local) (800) 847-5636 (out of state) Exchange privilege: Yes	
American Capital Comstock Fund	ST
American Capital Corp Bond Fund	BD
American Capital Enterprise Fund	ST
American Capital Federal Mortgage	BD
American Capital Government Secs	BD
American Capital Harbor Fund	BA
American Capital High Yield Inv	BD
American Capital Muni Bond Fund	MU
American Capital OTC Securities	ST
American Capital Pace Fund	ST
American Capital Tax-Ex–Hi Yld	MU
American Capital Tax-Ex–Ins	MU
American Capital Venture Fund	ST
Fund of America	ST
Provident Fund for Income	BA
American Funds Group 333 South Hope Street Los Angeles, CA 90071 (800) 421-0180 (local) (800) 421-9900 (out of state) Exchange privilege: Yes	
Amcap Fund	ST
American Balanced Fund	BA
American Inc-US Govt Guar	BD
American Funds Tax-Exempt I–Md	MU
American Funds Tax-Exempt II–Calif	MU
American Mutual Fund	ST
Bond Fund of America	BD
Cash Management Trust of America	MM
EuroPacific Growth Fund	FO
Fundamental Investors	ST
Growth Fund of America	ST
Income Fund of America	BA
Investment Co of America	ST
New Economy Fund	ST
New Perspective Fund	FO
Tax-Exempt Bond Fund of America	MU
Washington Mutual Investors	ST

ST	Stock fund
BA	Balanced fund
FO	Foreign fund
BD	Bond & preferred fund
MU	Municipal bond fund
MM	Money market fund

*Will accept collect calls

Distributor	Type of fund
American Growth Fund Sponsors 410 17th Street Suite 800 Denver, CO 80202 (303) 623-6137* (local) (800) 525-2406 (out of state) Exchange privilege: No	
American Growth Fund	ST
American Investors PO Box 2500 Greenwich, CT 06836 (203) 531-5000 (local) (800) 243-5353 (out of state) Exchange privilege: Yes	
American Investors Growth Fund	ST
American Pension Distributors PO Box 2529 Lynchburg, VA 24501 (800) 533-4115 (local) (800) 544-6060 (out of state) Exchange privilege: Yes	
American Pension–Growth	ST
AMEV Investors PO Box 64284 St Paul, MN 55164 (800) 328-1001 (local) (800) 872-2638 (out of state) Exchange privilege: Yes	
AMEV Capital Fund	ST
AMEV Fiduciary Fund	ST
AMEV Growth Fund	ST
AMEV US Govt Securities Fund	BD
Amway Management Co 7575 East Fulton Road Ada, MI 49355 (616) 676-6000 (local) Exchange privilege: No	
Amway Mutual Fund	ST
Analytic Optioned Equity Fund 2222 Martin Street Suite 230 Irvine, CA 92715 (714) 833-0294 (local) Exchange privilege: Yes	
Analytic Optioned Equity Fund	ST
Angeles Securities 10301 West Pico Boulevard Los Angeles, CA 90064 (213) 277-4900* (local) (800) 421-4374 (out of state) Exchange privilege: No	
FPA Capital Fund	ST
FPA Paramount Fund	ST
FPA Perennial Fund	ST
Aquila Distributors 200 Park Avenue Suite 4515 New York, NY 10017 (212) 697-6666* (local) (800) 228-4227 (out of state) Exchange privilege: Yes	
Hawaiian Tax-Free Trust	MU
Tax-Free Trust of Arizona	MU
Tax-Free Trust of Oregon	MU

Distributor	Type of fund
Armstrong Associates 1445 Ross Avenue LB 212 Suite 1490 Dallas, TX 75202 (214) 720-9101 (local) Exchange privilege: No	
Armstrong Associates	ST
Associated Planners Security 1901 Avenue of the Stars Suite 938 Los Angeles, CA 90067 (213) 553-6740* (local) Exchange privilege: No	
Associated Planners Stock Fund	ST
Avondale Government Securities 1105 Holliday Wichita Falls, TX 76301 (817) 761-3777* (local) Exchange privilege: No	
Avondale Government Securities	BD
Axe Securities Corp 400 Benedict Avenue Tarrytown, NY 10591 (914) 631-8131* (local) (800) 431-1030 (out of state) Exchange privilege: Yes	
Axe-Houghton Fund B	BA
Axe-Houghton Income Fund	BD
Axe-Houghton Stock Fund	ST
Bailard, Biehl & Kaiser 2755 Campus Drive San Mateo, CA 94403 (415) 571-5800* (local) (800) 882-8383 (out of state) Exchange privilege: No	
BB&K Diversa Fund	BA
Robert W Baird & Co 777 East Wisconsin Avenue Milwaukee, WI 53202 (414) 765-3500* (local) (800) 792-2473 (out of state) Exchange privilege: No	
Baird Blue Chip Fund	ST
Baird Capital Development Fund	ST
Bankers Systems Brokerage Services PO Box 517 St Cloud, MN 56302 (800) 247-0317 (local) (800) 328-1375 (out of state) Exchange privilege: Yes	
Bankers Systems Granit–Growth Stk	ST

Distributor	Type of fund
Bartlett Capital Trust 36 East Fourth Street Cincinnati, OH 45202 (800) 327-4363 (local) (800) 543-0863 (out of state) Exchange privilege: Yes	
Bartlett Capital Trust–Basic Value	ST
Bartlett Capital Trust–Fixed Income	BD
Beacon Hill Mutual Fund 75 Federal Street Boston, MA 02110 (617) 482-0795 (local) Exchange privilege: No	
Beacon Hill Mutual Fund	ST
Bench Securities 222 Bridge Plaza South Fort Lee, NJ 07024 (201) 585-2333* (local) (800) 422-3624 (out of state) Exchange privilege: Yes	
Bench Portfolios–Blue Chip	ST
Benham Capital Management 755 Page Mill Road Palo Alto, CA 94304 (800) 982-6150 (local) (800) 227-8380 (out of state) Exchange privilege: Yes	
Benham Calif Tax-Free–Insured	MU
Benham Calif Tax-Free–Intermediate	MU
Benham Calif Tax-Free–Long-Term	MU
Benham Calif Tax-Free–MM	MM
Benham Government Inc–GNMA	BD
Benham National Tax-Free–L-T	MU
Benham National Tax-Free–MM	MM
Capital Preservation Fund	MM
Capital Preservation Treasury Note	BD
Berger Associates 899 Logan Street Denver, CO 80203 (303) 837-1020* (local) (800) 333-1001 (out of state) Exchange privilege: Yes	
One Hundred Fund	ST
One Hundred One Fund	ST
Berwyn Fund 1189 Lancaster Avenue Berwyn, PA 19312 (215) 640-4330* (local) Exchange privilege: No	
Berwyn Fund	ST
Boston Co Funds Distributor One Boston Place Boston, MA 02106 (800) 225-5267 (nationwide) Exchange privilege: Yes	
Boston Co Capital Appreciation Fund	ST
Boston Co Managed Income Fund	BD
Boston Co Special Growth Fund	ST
Boston Co Tax-Free Muni–Mass MM	MM
Boston Co Tax-Free Muni–Money	MM
UST Master Funds–Equity	ST
UST Master Funds–Income & Grow	ST
UST Master Tax-Exempt–Intermed	MU
UST Master Tax-Exempt–Short-Term	MM

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Fund Distributors

Distributor	Type of fund
Brandywine Fund PO Box 4166 Greenville, DE 19807 (302) 656-6200 (local) Exchange privilege: No	
Brandywine Fund	ST
Bridges Investment Fund 8401 West Dodge Road Omaha, NE 68114 (402) 397-4700* (local) Exchange privilege: No	
Bridges Investment Fund	ST
Clayton Brown & Associates 500 West Madison Suite 3000 Chicago, IL 60606 (312) 559-3007 (local) (800) 621-4770 (out of state) Exchange privilege: Yes	
First Trust–US Government	BD
Alex Brown & Sons 135 East Baltimore Street Baltimore, MD 21202 (301) 727-1700* (local) Exchange privilege: Yes	
Alex Brown Cash Reserve–Prime	MM
Flag Investors Corporate Cash Trust	ST
Flag Investors International Trust	FO
Flag Investors T-F Cash Reserve Shs	MM
Flag Investors Telephone Income	ST
Bruce Fund 20 North Wacker Drive Suite 1425 Chicago, IL 60606 (312) 236-9160 (local) Exchange privilege: No	
Bruce Fund	BA
Bull & Bear Group 11 Hanover Square New York, NY 10005 (212) 785-0900* (local) (800) 847-4200 (out of state) Exchange privilege: Yes	
Bull & Bear Capital Growth Fund	ST
Bull & Bear Equity-Income Fund	ST
Bull & Bear Gold Investors	FO
Bull & Bear High Yield Fund	BD
Bull & Bear US Govt Guar Secs	BD
Calamos Financial Services 2001 Spring Road Suite 750 Oakbrook, IL 60521 (800) 323-9943 (local) (800) 251-2411 (out of state) Exchange privilege: No	
Calamos Convertible Income	ST
California Investment Trust 44 Montgomery Street Suite 2200 San Francisco, CA 94104 (800) [illegible]5-8778 (local) (800) [illegible]-8166 (out of state) Exchange privilege: Yes	
California Investment Tax-Free Inc	MU
California Investment Tax-Free MM	MM

Distributor	Type of fund
Calvert Group 1700 Pennsylvania Avenue NW Washington, DC 20006 (301) 951-4800* (local) (800) 368-2748 (out of state) Exchange privilege: Yes	
Calvert Ariel Growth Fund	ST
Calvert Fund–Equity	ST
Calvert–Washington Area Growth	ST
Calvert Social Inv–Managed Growth	BA
Calvert Tax-Free Reserves–Limited	MU
Calvert Tax-Free Reserves–L-T	MU
Calvert Tax-Free Reserves–MM	MM
Money Management Plus–Tax-Free	MM
Capstone Asset Planning Company PO Box 3167 Houston, TX 77253-3167 (800) 262-6631 (nationwide) Exchange privilege: Yes	
Capstone Equity Guard Stock Fund	ST
Cashman Farrell Value Fund	ST
Fund of the Southwest	ST
PBHG Growth Fund	ST
US Trend Fund	ST
Carnegie Fund Distributors 1100 The Hale Building 1228 Euclid Avenue Cleveland, OH 44115 (216) 781-4440* (local) (800) 321-2322 (out of state) Exchange privilege: Yes	
Carnegie-Cappiello Trust–Growth	ST
Carnegie-Cappiello–Total Return	ST
Carnegie Govt Secs–High Yield Govt	BD
Carnegie Tax-Free Income Trust	MM
Liquid Capital Income Trust	MM
Centennial Capital Corp 3410 South Galena Street Denver, CO 80201 (800) 356-3556 (local) (800) 525-7048 (out of state) Exchange privilege: Yes	
Centennial Tax-Exempt Trust	MM
Daily Cash Accumulation Fund	MM
Century Shares Trust One Liberty Square Boston, MA 02109 (617) 482-3060* (local) (800) 321-1928 (out of state) Exchange privilege: No	
Century Shares Trust	ST
Cigna Securities Hartford, CT 06152 (203) 726-6000 (nationwide) Exchange privilege: Yes	
Cigna Aggressive Growth Fund	ST
Cigna Government Securities	BD
Cigna Growth Fund	ST
Cigna High Yield Fund	BD
Cigna Income Fund	BD
Cigna Municipal Bond Fund	MU
Cigna Tax-Exempt Cash Fund	MM
Cigna Value Fund	ST

Distributor	Type of fund
Claremont Financial Services 250 West First Street Suite 220 Claremont, CA 91711 (800) 554-5106 (local) (800) 826-8896 (out of state) Exchange privilege: Yes *Note: This distributor has nothing to do with the closed-end Claremont Capital on the honor roll*	
Claremont Fund-Combined	BA
Colonial Investment Services One Financial Center Boston, MA 02111 (617) 426-3750* (local) (800) 225-2365 (nationwide) Exchange privilege: Yes	
Colonial Advanced Strategies Gold	BA
Colonial California Tax-Exempt	MU
Colonial Equity Income Trust	ST
Colonial Fund	BA
Colonial Government Securities Plus	BD
Colonial Growth Shares Trust	ST
Colonial High Yield Securities	BD
Colonial Income Trust	BD
Colonial International Equity Index	FO
Colonial Ohio Tax-Exempt Trust	MU
Colonial Small Stock Index Trust	ST
Colonial Strategic Inc–Diversified	ST
Colonial Strategic Inc–Income Plus	ST
Colonial Tax-Exempt–High Yield	MU
Colonial Tax-Exempt–Insured Fund	MU
Colonial Tax-Exempt–Money Market	MM
Colonial US Equity Index Trust	ST
Columbia Funds Management Co PO Box 1350 Portland, OR 97207-1350 (800) 452-4512 (local) (800) 547-1037 (out of state) Exchange privilege: Yes	
Columbia Fixed Income Securities	BD
Columbia Growth Fund	ST
Columbia Municipal Bond Fund	MU
Columbia Special Fund	ST
Command Money Market Funds 115 Broadway 16th Floor New York, NY 10292 (212) 306-0501 (local) Exchange privilege: No	
Command Money Fund	MM
Command Tax-Free Fund	MM
Common Sense Distributors 3120 Breckinridge Boulevard Duluth, GA 30199-0001 (404) 381-2668 (local) (800) 888-3863 (out of state) Exchange privilege: Yes	
Common Sense–Government	BD
Common Sense–Growth	ST
Common Sense–Growth & Income	ST

Distributor	Type of fund
Concord Financial Group 156 West 56th Street 19th Floor New York, NY 10019 (212) 492-1600* (local) (800) 367-6075 (out of state) Exchange privilege: Yes	
Pacific Horizon–Aggressive Growth	ST
Pacific Horizon–Calif Tax-Ex Bond	MU
Pacific Horizon–Government MM	MM
Pacific Horizon–Money Market	MM
Pacific Horizon–Tax-Exempt MM	MM
Connecticut Mutual Financial Services 140 Garden Street Hartford, CT 06154 (203) 727-6500* (local) (800) 243-2501 (out of state) Exchange privilege: Yes	
Connecticut Mutual–Govt Secs	BD
Connecticut Mutual–Growth	ST
Connecticut Mutual–Total Return	ST
Continental Equities Corp of America 180 Maiden Lane New York, NY 10038 (212) 440-3863 (local) (800) 626-3863 (nationwide) Exchange privilege: Yes	
Continental Equity Plus Fund	ST
Continental Option Income Plus	ST
Continental US Government Plus	BD
Conway, Luongo, Williams 3000 Sand Hill Road Menlo Park, CA 94025 (415) 854-9150* (local) Exchange privilege: No	
Adam Investors	ST
Copley Financial Services Corp PO Box 3287 Fall River, MA 02722 (617) 674-8459* (local) Exchange privilege: No	
Copley Fund	ST
Cortland Distributors 315 State Street Hackensack, NJ 07601 (201) 342-6066 (local) (800) 433-1918 (out of state) Exchange privilege: Yes	
Cortland Trust–Tax-Free MM	MM
Counsellors Securities 466 Lexington Avenue New York, NY 10017-3147 (212) 878-0600 (local) (800) 888-6878 (nationwide) Exchange privilege: Yes	
Counsellors New York Muni Bond	MU
Counsellors New York Tax-Exempt	MM

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Fund Distributors

Distributor	Type of fund
Country Capital Management Co PO Box 2222 Bloomington, IL 61701 (309) 557-2444 (local) Exchange privilege: Yes	
Country Capital Growth Fund	ST
Country Capital Income Fund	BA
Cowen & Co Financial Square New York, NY 10005 (212) 495-6000 (local) (800) 221-5616 (out of state) Exchange privilege: Yes	
Cowen Income + Growth Fund	ST
Standby Tax-Exempt Reserve Fund	MM
Craig-Hallum 701 Fourth Avenue South Minneapolis, MN 55415 (800) 331-4923 (nationwide) Exchange privilege: No	
General Securities	ST
Criterion Distributors 1000 Louisiana Houston, TX 77002-5098 (800) 999-3863 (local) (800) 231-4645 (out of state) Exchange privilege: Yes	
Criterion Bond–Investment Quality	BD
Criterion Bond–US Govt High Yield	BD
Criterion Income–Commerce Inc Shs	BA
Criterion Lowry Market Timing	ST
Criterion Pilot Fund	ST
Criterion Special Convertible Secs	BA
Criterion Special Global Growth	FO
Criterion Sunbelt Growth Fund	ST
Criterion Technology Fund	ST
Current Interest–Money Market	MM
Current Interest–Tax-Free	MM
Dean Witter Reynolds One World Trade Center New York, NY 10048 (212) 938-4554 (local) (800) 221-2685 (out of state) Exchange privilege: Yes	
Active Assets Money Trust	MM
Active Assets Tax-Free Trust	MM
Dean Witter American Value Fund	ST
Dean Witter Calif Tax-Free Income	MU
Dean Witter Convertible Secs	BA
Dean Witter Developing Growth Secs	ST
Dean Witter Dividend Growth Secs	ST
Dean Witter Government Secs Plus	BD
Dean Witter High Yield Secs	BD
Dean Witter Natural Resource Dev	ST
Dean Witter NY Tax-Free Income	MU
Dean Witter Option Income Trust	ST
Dean Witter/Sears Liquid Asset	MM
Dean Witter/Sears Tax-Free Daily Inc	MM
Dean Witter/Sears US Govt MM	MM
Dean Witter Tax-Exempt Secs	MU
Dean Witter US Govt Securities	BD
Dean Witter World Wide Investment	FO

Distributor	Type of fund
Delaware Distributors Ten Penn Center Plaza Philadelphia, PA 19103 (215) 988-1333 (local) (800) 523-4640 (nationwide) Exchange privilege: Yes	
Delaware Group Cash Reserve	MM
Delaware Group Decatur Fund–I	ST
Delaware Group Decatur Fund–II	ST
Delaware Group Delaware Fund	BA
Delaware Group DelCap–Concept I	ST
Delaware Group Delchester Hi Yld–I	BD
Delaware Group Government–Inc	BD
Delaware Group Tax-Free–Money	MM
Delaware Group Tax-Free–USA	MU
Delaware Group Tax-Free–USA Ins	MU
Delaware Group Treasury Res–Inv	BD
Delaware Group Trend Fund	ST
DMC Tax-Free Income Trust–PA	MU
Diversified Securities PO Box 357 Long Beach, CA 90801 (213) 595-7711* (local) Exchange privilege: No	
Investors Research Fund	ST
Dividend Growth Fund 107 North Adams Street Rockville, MD 20850 (301) 251-1002* (local) (800) 638-2042 (out of state) Exchange privilege: Yes	
Dividend/Growth–Dividend	ST
Dodge & Cox One Post Street 35th Floor San Francisco, CA 94104 (415) 434-0311 (local) Exchange privilege: Yes	
Dodge & Cox Balanced Fund	BA
Dodge & Cox Stock Fund	ST
Dolphin FRIC Convertible Fund 10900 Wilshire Boulevard Los Angeles, CA 90024 (213) 824-7609 (local) Exchange privilege: No	
Dolphin FRIC Convertible Fund	BA
Drexel Burnham Lambert 60 Broad Street New York, NY 10004 (212) 480-6000* (local) (800) 221-3290 (out of state) Exchange privilege: Yes	
DBL Cash Fund–Money Market	MM
DBL Tax-Free Fund–Limited Term	MU
DBL Tax-Free Fund–Long-Term	MU
DBL Tax-Free Fund–Money Market	MM
Drexel Burnham Fund	ST
Drexel Series–Convertible Secs	ST
Drexel Series–Emerging Growth	ST
Drexel Series–Government Securities	BD
Drexel Series–Growth	ST
Drexel Series–Option Income	ST
Fenimore International Fund Equity	FO

Distributor	Type of fund
Dreyfus Service Corp 600 Madison Avenue New York, NY 10022 (718) 895-1206 (local) (800) 645-6561 (out of state) Exchange privilege: Yes	
Dreyfus A Bonds Plus	BD
Dreyfus California Tax-Exempt Bond	MU
Dreyfus California Tax-Exempt MM	MM
Dreyfus Capital Value Fund	ST
Dreyfus Convertible Securities Fund	BA
Dreyfus Fund	ST
Dreyfus General Aggressive Growth	ST
Dreyfus General Calif Tax-Ex Money	MM
Dreyfus General NY Tax-Ex Money	MM
Dreyfus General Tax-Exempt Bond	MU
Dreyfus GNMA Fund	BD
Dreyfus Growth Opportunity Fund	ST
Dreyfus Index Fund	ST
Dreyfus Insured Tax-Exempt Bond	MU
Dreyfus Intermediate Tax-Ex Bond	MU
Dreyfus Leverage Fund	ST
Dreyfus Liquid Assets	MM
Dreyfus Massachusetts Tax-Ex Bond	MU
Dreyfus MM Instruments–Govt Secs	MM
Dreyfus New Leaders Fund	ST
Dreyfus New York Insured T-E Bond	MU
Dreyfus NY Tax-Exempt Bond Fund	MU
Dreyfus NY Tax-Ex Intermed Bond	MU
Dreyfus New York Tax-Exempt MM	MM
Dreyfus Short-Intermediate Tax-Ex	MU
Dreyfus Strategic Aggressive Inv LP	ST
Dreyfus Strategic Income	BD
Dreyfus Strategic Investing	ST
Dreyfus Strategic World Investing LP	FO
Dreyfus Tax-Exempt Bond Fund	MU
Dreyfus Tax-Exempt Money Market	MM
Dreyfus Third Century Fund	ST
Dreyfus US Govt Intermed Secs LP	BD
First Lakeshore Diversified Asset	BA
First Lakeshore T-E Money Market	MM
General Money Market Fund	MM
General NY Tax-Ex Intermed Bond	MU
General Tax-Exempt Money Market	MM
Westwood Fund	ST
Eaton Vance Distributors 24 Federal Street Boston, MA 02110 (617) 482-8260 (local) (800) 225-6265 (out of state) Exchange privilege: Yes	
Eaton & Howard Stock Fund	ST
Eaton Vance California Municipals	MU
Eaton Vance Government Oblig	BD
Eaton Vance Growth Fund	ST
Eaton Vance High Income Trust	BA
Eaton Vance High Yield	BD
Eaton Vance High Yield Municipals	MU
Eaton Vance Income Fund of Boston	BA
Eaton Vance Investors Fund	BA
Eaton Vance Muni Bond Fund	MU
Eaton Vance Special Equities Fund	ST
Eaton Vance Tax-Free Reserves	MM
Eaton Vance Total Return Trust	ST
Leverage Fund of Boston	ST
Nautilus Fund	ST
Vance, Sanders Special Fund	ST
Eclipse Financial Services PO Box 2196 Peachtree City, GA 30269 (404) 631-0414 (local) (800) 872-2710 (out of state) Exchange privilege: No	
Eclipse Equity Fund	ST

Distributor	Type of fund
Enterprise Fund Distributors 250 Piedmont Avenue NE Suite 102 Atlanta, GA 30365 (404) 521-6545* (local) (800) 367-6536 (nationwide) Exchange privilege: Yes	
Enterprise Group–Growth	ST
EQSF Advisers 767 Third Avenue 5th Floor New York, NY 10017 (212) 888-6685 (local) (800) 834-3400 (out of state) Exchange privilege: No	
Equity Strategies Fund	ST
Equitec Securities PO Box 2470 Oakland, CA 94614 (800) 445-9052 (local) (800) 445-9020 (out of state) Exchange privilege: Yes	
Equitec Siebel Aggressive Growth	ST
Equitec Siebel High Yield Bond Fund	BD
Equitec Siebel Total Return Fund	ST
Equitec Siebel US Government Secs	BD
Equity Services National Life Drive Montpelier, VT 05604 (802) 229-3900 (local) (800) 233-4332 (out of state) Exchange privilege: Yes	
Sentinel Balanced Fund	BA
Sentinel Bond Fund	BD
Sentinel Common Stock Fund	ST
Sentinel Government Securities Fund	BD
Sentinel Growth Fund	ST
Fahnestock & Co 110 Wall Street New York, NY 10005 (212) 668-8000 (local) (800) 221-5588 (out of state) Exchange privilege: Yes	
Eagle Growth Shares	ST
Philadelphia Fund	ST
Fairfield Group 200 Gibraltar Road Horsham, PA 19044 (800) 222-3429 (local) (800) 441-3885 (out of state) Exchange privilege: Yes	
St Clair Equity–Capital Growth Fund	ST
St Clair Tax-Free–Money Market	MM
Viking Equity Index Fund–General	ST
Fairmont Fund 1346 South Third Street Louisville, KY 40208 (502) 636-5633 (local) (800) 262-9936 (out of state) Exchange privilege: Yes	
Fairmont Fund	ST

Distributor	Type of fund
FBL Investment Advisory Services 5400 University Avenue West Des Moines, IA 50265 (800) 422-3175 (local) (800) 247-4170 (out of state) Exchange privilege: Yes	
FBL–Growth Common Stock	ST
Federated Securities Corp Federated Tower Pittsburgh, PA 15222-3779 (412) 288-1900* (local) (800) 245-2423 (out of state) Exchange privilege: Yes	
American Leaders Fund	ST
Convertible Securities & Income	BA
Federated Floating Rate Trust	BD
Federated GNMA Trust	BD
Federated Growth Trust	ST
Federated High Income Securities	BD
Federated High Quality Stock Fund	ST
Federated High Yield Trust	BD
Federated Income Trust	BD
Federated Intermediate Government	BD
Federated Intermediate Municipal	MU
Federated Short-Intermed Govt	BD
Federated Stock & Bond Fund	BA
Federated Stock Trust	ST
Federated Tax-Free Income Fund	MU
Federated Tax-Free Trust	MM
Federated Utility Trust	ST
Fortress High Yield Tax-Free Fund	MU
FT International	FO
Fund for US Govt Securities	BD
Government Income Securities	BD
Liberty US Govt Money Market	MM
AT Ohio Tax-Free Money Fund	MM
Progressive Income Equity	ST
Tax-Free Instruments Trust	MM
Fidelity Distributors Corp PO Box 193 Boston, MA 02101 (617) 523-1919* (local) (800) 544-6666 (out of state) Exchange privilege: Yes	
Fidelity Balanced Fund	BA
Fidelity Calif Tax-Free–High Yield	MU
Fidelity Calif Tax-Free–Insured	MU
Fidelity Calif Tax-Free–MM	MM
Fidelity Capital Appreciation	ST
Fidelity Cash Reserves	MM
Fidelity Contrafund	ST
Fidelity Convertible Securities Fund	BA
Fidelity Daily Income Trust	MM
Fidelity Destiny Portfolio I	ST
Fidelity Destiny Portfolio II	ST
Fidelity Equity-Income Fund	ST
Fidelity Europe Fund	FO
Fidelity Flexible Bond Fund	BD
Fidelity Freedom Fund	ST
Fidelity Fund	ST
Fidelity Ginnie Mae	BD
Fidelity Global Bond Fund	FO
Fidelity Government Securities Fund	BD
Fidelity Growth & Income	ST
Fidelity Growth Company	ST
Fidelity High Income Fund	BD
Fidelity Intermediate Bond Fund	BD
Fidelity International Growth & Inc	FO
Fidelity Magellan Fund	ST

Distributor	Type of fund
Fidelity Mass Tax-Free–High Yield	MU
Fidelity Mass Tax-Free–MM	MM
Fidelity Mortgage Securities	BD
Fidelity NY Tax-Free–High Yield	MU
Fidelity NY Tax-Free–Insured	MU
Fidelity NY Tax-Free–Money Market	MM
Fidelity OTC Portfolio	ST
Fidelity Overseas Fund	FO
Fidelity Pacific Basin Fund	FO
Fidelity Pennsylvania T-F–Hi Yld	MU
Fidelity Pennsylvania T-F–MM	MM
Fidelity Plymouth–Income & Grow	ST
Fidelity Puritan Fund	BA
Fidelity Real Estate Investment	ST
Fidelity Select–Air Transportation	ST
Fidelity Select–American Gold	ST
Fidelity Select–Automation Mach	ST
Fidelity Select–Automotive	ST
Fidelity Select–Biotechnology	ST
Fidelity Select–Broadcast & Media	ST
Fidelity Select–Brokerage & Inv	ST
Fidelity Select–Capital Goods	ST
Fidelity Select–Chemicals	ST
Fidelity Select–Computers	ST
Fidelity Select–Defense & Aero	ST
Fidelity Select–Electric Utilities	ST
Fidelity Select–Electronics	ST
Fidelity Select–Energy	ST
Fidelity Select–Energy Service	ST
Fidelity Select–Financial Services	ST
Fidelity Select–Food & Agriculture	ST
Fidelity Select–Health Care	ST
Fidelity Select–Housing	ST
Fidelity Select–Industrial Materials	ST
Fidelity Select–Leisure	ST
Fidelity Select–Medical Delivery	ST
Fidelity Select–Money Market	MM
Fidelity Select–Paper & Forest Prod	ST
Fidelity Select–Prec Metals & Mins	ST
Fidelity Select–Prop & Casualty	ST
Fidelity Select–Regional Banks	ST
Fidelity Select–Retailing	ST
Fidelity Select–Savings & Loan	ST
Fidelity Select–Software & Computer	ST
Fidelity Select–Technology	ST
Fidelity Select–Telecommunications	ST
Fidelity Select–Utilities	ST
Fidelity Short-Term Bond	BD
Fidelity Special Situations–Initial	ST
Fidelity Special Situations–Plymouth	ST
Fidelity State Tax-Free–Michigan	MU
Fidelity State Tax-Free–Minnesota	MU
Fidelity State Tax-Free–Ohio	MU
Fidelity Tax-Exempt–Money Market	MM
Fidelity Tax-Free–Aggressive	MU
Fidelity Tax-Free–High Yield	MU
Fidelity Tax-Free–Insured	MU
Fidelity Tax-Free–Ltd Term Munis	MU
Fidelity Tax-Free–Municipal Bond	MU
Fidelity Tax-Free–Short-Term	MU
Fidelity Texas Tax-Free	MU
Fidelity Trend Fund	ST
Fidelity US Government Reserves	MM
Fidelity Value Fund	ST
Fiduciary Investment Co 230 South Tryon Street Suite 345 Charlotte, NC 28202 (704) 331-0710* (local) (800) 527-1578 (out of state) Exchange privilege: No	
Salem Funds–Growth	ST

*Will accept collect calls.

Fund Distributors

Distributor	Type of fund
Fiduciary Management 222 East Mason Street Milwaukee, WI 53202 (414) 271-6666* (local) Exchange privilege: No	
Fiduciary Capital Growth Fund	ST
Financial Programs PO Box 2040 Denver, CO 80201 (800) 525-9769 (local) (800) 525-8085 (out of state) Exchange privilege: Yes	
Financial Bond Shares–High Yield	BD
Financial Dynamics Fund	ST
Financial Industrial Fund	ST
Financial Industrial Income Fund	ST
Financial Strategic–Energy	ST
Financial Strategic–European	FO
Financial Strategic–Gold	ST
Financial Strategic–Health Science	ST
Financial Strategic–Leisure	ST
Financial Strategic–Pacific Basin	FO
Financial Strategic–Technology	ST
Financial Strategic–Utilities	ST
Financial Tax-Free Income Shares	MU
Financial Tax-Free Money Fund	MM
First Eagle Fund of America 45 Broadway New York, NY 10006 (212) 943-9200* (local) (800) 451-3623 (out of state) Exchange privilege: No	
First Eagle Fund of America	ST
First Investors Management Co 10 Woodbridge Center Drive Woodbridge, NJ 07095 (212) 208-6000 (local) (800) 423-4026 (out of state) Exchange privilege: Yes	
First Investors Bond Appreciation	BD
First Investors Discovery Fund	ST
First Investors Fund for Growth	ST
First Investors Fund for Income	BD
First Investors Government Fund	BD
First Investors High Yield Fund	BD
First Investors International Secs	FO
First Investors New York Tax-Free	MU
First Investors Option Fund	ST
First Investors Tax-Exempt Fund	MU
First Investors Tax-Exempt MM	MM
First Investors Value Fund	ST
Flagship Financial One First National Plaza Suite 910 Dayton, OH 45402 (800) 354-7447 (local) (800) 227-4648 (out of state) Exchange privilege: Yes	
Flagship Tax-Ex–Arizona Double	MU
Flagship Tax-Ex–Georgia Double	MU
Flagship Tax-Ex–Kentucky Triple	MU
Flagship Tax-Exempt–Mich Triple	MU
Flagship Tax-Exempt–NC Triple	MU
Flagship Tax-Exempt–Ohio Double	MU
Flagship Tax-Exempt–Penn Triple	MU
Flagship Tax-Exempt–Va Double	MU

Distributor	Type of fund
Flex Funds PO Box 7177 Dublin, OH 43017 (614) 766-7000* (local) (800) 325-3539 (out of state) Exchange privilege: Yes	
Flex-funds–Growth Fund	ST
Flex-funds–Income & Growth Fund	ST
Flex-funds–Retirement Growth	ST
44 Securities 630 Third Avenue New York, NY 10017 (212) 808-5220 (local) (800) 221-7836 (out of state) Exchange privilege: Yes	
44 Wall Street Equity Fund	ST
44 Wall Street Fund	ST
Founders Mutual Depositor Corp 3033 East First Avenue Suite 810 Denver, CO 80206 (800) 874-6301 (local) (800) 525-2440 (out of state) Exchange privilege: Yes	
Founders Blue Chip	ST
Founders Equity Income Fund	ST
Founders Frontier Fund	ST
Founders Growth Fund	ST
Founders Special Fund	ST
Franklin Distributors 777 Mariner's Island Boulevard San Mateo, CA 94404-1585 (800) 342-5236 (local) (800) 632-2180 (out of state) Exchange privilege: Yes	
Franklin AGE High Income Fund	BD
Franklin Calif Insured Tax-Free Inc	MU
Franklin Calif Tax-Exempt Money	MM
Franklin Calif Tax-Free Income	MU
Franklin DynaTech Fund	ST
Franklin Equity Fund	ST
Franklin Federal Tax-Free Income	MU
Franklin Gold Fund	FO
Franklin Growth Fund	ST
Franklin High Yield Tax-Free Income	MU
Franklin Income Fund	BA
Franklin Insured Tax-Free Income	MU
Franklin Managed Trust Rising Divs	ST
Franklin Mass Insured Tax-Free Inc	MU
Franklin Mich Insured Tax-Free Inc	MU
Franklin Minn Insured Tax-Free Inc	MU
Franklin Money Fund	MM
Franklin New York Tax-Ex Money	MM
Franklin New York Tax-Free Income	MU
Franklin Ohio Insured Tax-Free Inc	MU
Franklin Option Fund	ST
Franklin Pennsylvania Tax-Free Inc	MU
Franklin PR Tax-Free Income Fund	MU
Franklin Short-Intermed US Govt	BD
Franklin Tax-Advant US Govt Secs	BD
Franklin Tax-Exempt Money Fund	MM
Franklin US Government Securities	BD
Franklin Utilities Fund	ST

Distributor	Type of fund
Fundamental Services 111 Broadway Suite 1107 New York, NY 10006 (212) 608-6864* (local) (800) 277-1549 (out of state) Exchange privilege: Yes	
New York Muni Fund	MU
Furman Selz Mager Dietz & Birney 230 Park Avenue New York, NY 10169 (212) 309-8400* (local) (800) 845-8406 (out of state) Exchange privilege: Yes	
FFB Tax-Free Money Market Fund	MM
FS Government Securities Income	BD
Fund Source–International Equity	FO
FundTrust–Aggressive Growth	ST
FundTrust–Growth	ST
FundTrust–Growth & Income	BA
FundTrust–Income	BD
Gabelli & Company PO Box 1634 Grand Central Station New York, NY 10163 (212) 490-3670 (local) (800) 422-3554 (out of state) Exchange privilege: No	
Gabelli Asset Fund	ST
Gabelli Growth Fund	ST
GAM Funds PO Box 2798 Boston, MA 02108 (617) 482-9300* (local) (800) 356-5740 (out of state) Exchange privilege: Yes	
GAM Global Fund	FO
GAM International Fund	FO
GAM Pacific Basin Fund	FO
Gateway Investment Advisers 400 TechneCenter Drive Suite 220 Milford, OH 45150 (513) 248-2700* (local) (800) 354-6339 (out of state) Exchange privilege: Yes	
Gateway Option Index Fund	ST
Gintel & Co Greenwich Office Park #6 Greenwich, CT 06830 (203) 622-6400 (local) (800) 243-5808 (out of state) Exchange privilege: Yes	
Gintel Capital Appreciation Fund	ST
Gintel ERISA Fund	ST
Gintel Fund	ST
GIT Investment Services 1655 North Fort Myer Drive Arlington, VA 22209 (800) 336-3063 (nationwide) Exchange privilege: Yes	
GIT Equity Trust–Special Growth	ST
GIT Tax-Free Trust–High Yield	MU

Distributor	Type of fund
Global Capital Investors 1270 Avenue of the Americas New York, NY 10020 (212) 956-7030* (local) (800) 822-8252 (out of state) Exchange privilege: Yes	
Hidden Strength–Growth	ST
Hidden Strength–Mod Asset Alloc	BA
Hidden Strength–US Govt High Yield	BD
Gradison & Co 580 Walnut Street Cincinnati, OH 45202 (800) 582-7062 (local) (800) 543-1818 (out of state) Exchange privilege: Yes	
Gradison Established Growth Fund	ST
Gradison Opportunity Growth Fund	ST
Greenspring Fund Suite 322 The Quadrangle Village of Cross Keys Baltimore, MD 21210 (301) 435-9000 (local) Exchange privilege: No	
Greenspring Fund	ST
Growth Industry Shares 135 South LaSalle Street Chicago, IL 60603 (312) 346-4830 (local) (800) 635-2886 (out of state) Exchange privilege: No	
Growth Industry Shares	ST
GT Global Financial Services 50 California Street Suite 2700 San Francisco, CA 94111-4624 (415) 392-6181* (local) (800) 824-1580 (out of state) Exchange privilege: Yes	
GT Global Europe	FO
GT Global Worldwide	FO
GT Global International	FO
GT Global Japan	FO
GT Global Pacific	FO
Guardian Investor Services Corp 201 Park Avenue South New York, NY 10003 (800) 221-3253 (nationwide) Exchange privilege: Yes	
Guardian Park Ave Fund	ST
John Hancock Advisors 101 Huntington Avenue Boston, MA 02199 (617) 572-4210 (local) (800) 225-5291 (out of state) Exchange privilege: Yes	
John Hancock Bond Trust	BD
John Hancock Global Trust	FO
John Hancock Growth Trust	ST
John Hancock High Inc–Fed Secs	BD
John Hancock High Inc–Fixed Inc	BD
John Hancock Special Equities Trust	ST
John Hancock Tax-Exempt Income	MU
John Hancock US Govt Guar Mort	BD
John Hancock US Govt Securities	BD

Distributor	Type of fund
Harbor Capital Funds One SeaGate Toledo, OH 43666 (800) 422-1065 (local) (800) 422-1050 (out of state) Exchange privilege: No	
Harbor Growth Fund	ST
Hartwell Funds 515 Madison Avenue New York, NY 10022 (212) 308-3355 (local) (800) 645-6405 (out of state) Exchange privilege: No	
Hartwell Emerging Growth	ST
Hartwell Growth Fund	ST
Heine Management Group PO Box 830 Westport, CT 06881 (800) 522-2564 (local) (800) 422-2564 (out of state) Exchange privilege: No	
LMH Fund	ST
Heine Securities 51 John F Kennedy Parkway Short Hills, NJ 07078 (201) 912-2100* (local) (800) 448-3863 (out of state) Exchange privilege: Yes	
Mutual Series Fund–Beacon	ST
Mutual Series Fund–Mutual Shares	ST
Mutual Series Fund–Qualified	ST
Wayne Hummer & Co 175 West Jackson Boulevard Chicago, IL 60604 (800) 972-5566 (local) (800) 621-4477 (out of state) Exchange privilege: Yes	
Wayne Hummer Growth Fund	ST
Huntington Investments 251 South Lake Avenue Suite 600 Pasadena, CA 91101 (818) 440-9688* (local) (800) 232-3310 (out of state) Exchange privilege: No	
International Cash–Global	FO
IAI Funds PO Box 357 Minneapolis, MN 55440 (612) 371-2884 (local) Exchange privilege: Yes	
IAI Apollo	ST
IAI Bond Fund	BD
IAI International Fund	FO
IAI Regional Fund	ST
IAI Reserve Fund	BD
IAI Stock Fund	ST

Distributor	Type of fund
Idex Management PO Box 5068 Clearwater, FL 33518 (813) 585-6565 (local) (800) 237-3055 (out of state) Exchange privilege: Yes	
IDEX Fund	ST
IDEX II	ST
Idex Fund III	ST
IDS Financial Services IDS Tower 10 Minneapolis, MN 55440 (612) 372-3733 (local) (800) 328-8300 (out of state) Exchange privilege: Yes	
IDS Bond Fund	BD
IDS California Tax-Exempt Fund	MU
IDS Cash Management Fund	MM
IDS Discovery Fund	ST
IDS Equity Plus	ST
IDS Extra Income Fund	BD
IDS Federal Income Fund	BD
IDS Growth Fund	ST
IDS High Yield Tax-Exempt Fund	MU
IDS Insured Tax-Exempt Fund	MU
IDS International Fund	FO
IDS Managed Retirement Fund	ST
IDS Minnesota Tax-Exempt Fund	MU
IDS Mutual	BA
IDS New Dimensions Fund	ST
IDS New York Tax-Exempt Fund	MU
IDS Precious Metals Fund	ST
IDS Progressive Fund	ST
IDS Selective Fund	BD
IDS Stock Fund	ST
IDS Strategy–Aggressive Equity	ST
IDS Strategy–Equity	ST
IDS Strategy–Income	BD
IDS Strategy–Pan Pacific Growth	FO
IDS Tax-Exempt Bond Fund	MU
IDS Tax-Free Money Fund	MM
Integrated Resources Asset Mgmt 666 Third Avenue New York, NY 10017 (212) 551-6700 (local) (800) 232-1230 (out of state) Exchange privilege: Yes	
Home Investors Govt Guaranteed Inc	BD
Integrated Capital Appreciation Fund	ST
Integrated Equity–Aggressive Growth	ST
Integrated Equity–Growth	ST
Integrated Income–Convertible Secs	BA
Integrated Income–Govt Secs Plus	BD
Integrated Income–Income Plus	BD
Integrated Tax-Free–Stripes	MU
International Heritage 101 Summer Street Boston, MA 02110 (617) 482-8757 (local) (800) 445-0141 (out of state) Exchange privilege: Yes	
International Heritage–High Yield	BD
Omega Fund	ST

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Fund Distributors

Distributor	Type of fund
Interstate Capital Growth Fund 2700 NCNB Plaza Charlotte, NC 28280 (803) 235-1307* (local) (800) 289-2580 (out of state) Exchange privilege: No	
Interstate Capital Growth Fund	ST
Investors Management Group 418 Sixth Avenue Des Moines, IA 50309 (515) 244-5426 (local) Exchange privilege: Yes	
IMG Stock Accumulation Fund	ST
Investors Security Trust 110 Bank Street Suffolk, VA 23434 (804) 539-2396* (local) Exchange privilege: No	
Old Dominion Investors' Trust	ST
IRI Securities One Appleton Square Minneapolis, MN 55425 (612) 853-9500* (local) (800) 328-1010 (out of state) Exchange privilege: No	
IRI Stock Fund	ST
Midas Gold Shares & Bullion	ST
ITB Distributors 399 Boylston Street Boston, MA 02117 (617) 578-1388* (local) (800) 888-4823 (out of state) Exchange privilege: Yes	
Empire Builder Tax-Free Bond Fund	MU
Investment Trust of Boston	ST
Inv Trust of Boston–Mass T-F Inc	MU
Ivy Fund 40 Industrial Park Road Hingham, MA 02043 (800) 235-3322 (nationwide) Exchange privilege: Yes	
Ivy Growth Fund	ST
Ivy International Fund	FO
Raymond James & Associates 880 Carillon Parkway St Petersburg, FL 33716 (800) 248-8863 (local) (800) 237-7591 (out of state) Exchange privilege: Yes	
Heritage Capital Appreciation	ST
Janus Capital 100 Fillmore Street Suite 300 Denver, CO 80206 (303) 333-3863* (local) (800) 525-3713 (out of state) Exchange privilege: Yes	
Janus Fund	ST
Janus Value Fund	ST
Janus Venture Fund	ST

Distributor	Type of fund
Jefferson-Pilot Investor Services PO Box 22086 Greensboro, NC 27420 (919) 378-2451 (local) (800) 458-4498 (out of state) Exchange privilege: Yes	
JP Growth Fund	ST
Jones & Babson 2440 Pershing Road Kansas City, MO 64108 (816) 471-5200* (local) (800) 821-5591 (out of state) Exchange privilege: Yes	
Babson Bond Trust–Long-Term	BD
Babson Enterprise Fund	ST
Babson Growth Fund	ST
Babson Value Fund	ST
UMB Bond Fund	BD
UMB Stock Fund	ST
UMB Tax-Free Money Market	MM
Edward D Jones & Co 201 Progress Parkway Maryland Heights, MO 63043 (314) 851-2000* (local) Exchange privilege: No	
ED Jones Daily Passport Cash Trust	MM
Keefer Capital Management 50 Monument Square Portland, ME 04101 (207) 879-1900 (local) Exchange privilege: No	
Warburg International Fund	FO
Kemper Financial Services 120 South LaSalle Street Chicago, IL 60603 (312) 781-1121* (local) (800) 621-1048 (out of state) Exchange privilege: Yes	
Cash Equivalent Fund–Govt	MM
Cash Equivalent Fund–MM	MM
Investment Portfolios–Equity	ST
Investment Portfolios–Govt Plus	BD
Investment Portfolios–High Yield	BD
Investment Portfolios–Option Inc	ST
Investment Portfolios–Total Return	BA
Kemper California Tax-Free Income	MU
Kemper Growth Fund	ST
Kemper High Yield Fund	BD
Kemper Income & Capital Preserv	BD
Kemper International Fund	FO
Kemper Money Market Fund–MM	MM
Kemper Municipal Bond Fund	MU
Kemper Option Income Fund	ST
Kemper Summit Fund	ST
Kemper Total Return Fund	BA
Kemper US Government Securities	BD
Tax-Exempt California MM	MM
Tax-Exempt Money Market Fund	MM
Technology Fund	ST

Distributor	Type of fund
Keystone Distributors 99 High Street Boston, MA 02110 (617) 338-3400 (local) (800) 225-2618 (out of state) Exchange privilege: Yes	
Keystone America Equity Income	ST
Keystone America Government Secs	BD
Keystone America High Yield Bond	BD
Keystone America Inv Grade Bond	BD
Keystone America Tax-Free Income	MU
Keystone Custodian B-1	BD
Keystone Custodian B-2	BD
Keystone Custodian B-4	BD
Keystone Custodian K-1	BA
Keystone Custodian K-2	ST
Keystone Custodian S-1	ST
Keystone Custodian S-3	ST
Keystone Custodian S-4	ST
Keystone International Fund	FO
Keystone Precious Metals	FO
Keystone Tax-Exempt Trust	MU
Keystone Tax-Free Fund	MU
Kidder, Peabody & Co 10 Hanover Square New York, NY 10005 (212) 510-5028* (local) Exchange privilege: Yes	
Kidder, Peabody Equity Income	ST
Kidder, Peabody Government Income	BD
Kidder, Peabody MarketGuard Apprec	ST
Kidder, Peabody Premium Account	MM
Kidder, Peabody Special Growth Fund	ST
Kidder, Peabody Tax-Exempt MM	MM
Webster Cash Reserve Fund	MM
Kleinwort Benson International Inv 200 Park Avenue New York, NY 10166 (212) 983-4000 (local) (800) 233-9164 (out of state) Exchange privilege: No	
Kleinwort Benson–Transatlantic Gr	FO
Michael W Lamb & Associates 1001 East 101st Terrace Kansas City, MO 64131 (816) 941-7990* (local) Exchange privilege: No	
Wealth Monitors Fund	ST
Landmark Funds Broker Dealer Svcs 200 Berkeley Street Boston, MA 02116 (617) 423-1679* (local) (800) 343-2829 (out of state) Exchange privilege: Yes	
Landmark Capital Growth Fund	ST
Landmark Growth & Income Fund	ST
Landmark New York T-F Income	MU
Landmark New York T-F Reserves	MM
Landmark Tax-Free Reserves	MM
Landmark US Government Income	BD

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Distributor	Type of fund
Lazard Frères & Co One Rockefeller Plaza New York, NY 10020 (212) 957-5343* (local) (800) 854-8525 (out of state) Exchange privilege: Yes	
Lazard Frères–Equity Fund	ST
Lazard Frères–Tax-Free MM	MM
Legg Mason Wood Walker PO Box 1476 Baltimore, MD 21203 (301) 539-3400 (local) (800) 368-2558 (out of state) Exchange privilege: Yes	
Legg Mason Special Investment Trust	ST
Legg Mason Tax-Exempt Trust	MM
Legg Mason Total Return Trust	ST
Legg Mason Value Trust	ST
Lepercq-Istel Trust 345 Park Avenue New York, NY 10154 (212) 702-0174* (local) (800) 548-7878 (out of state) Exchange privilege: Yes	
Lepercq-Istel Fund	ST
Lexington Management Corp PO Box 1515 Saddle Brook, NJ 07662 (201) 845-7300* (local) (800) 526-0056 (out of state) Exchange privilege: Yes	
Corp Leaders Tr Fund Cert Ser B	ST
Lexington Global Fund	FO
Lexington GNMA Income Fund	BD
Lexington Goldfund	ST
Lexington Growth Fund	ST
Lexington Research Fund	ST
Lexington Tax-Free Money Fund	MM
Liberty Investment Services PO Box 9146 Boston, MA 02205 (800) 542-3863 (nationwide) Exchange privilege: Yes	
Liberty Mutual US Govt Guar Inc	BD
Lieber & Co 550 Mamaroneck Avenue Harrison, NY 10528 (914) 698-5711* (local) (800) 235-0064 (out of state) Exchange privilege: Yes	
Evergreen Fund	ST
Evergreen Total Return Fund	ST
Evergreen Value Timing Fund	ST
Lincoln Investment Planning 218 Glenside Avenue Wyncote, PA 19095-1595 (800) 222-3317 (local) (800) 242-1421 (out of state) Exchange privilege: Yes	
Rightime Fund	ST

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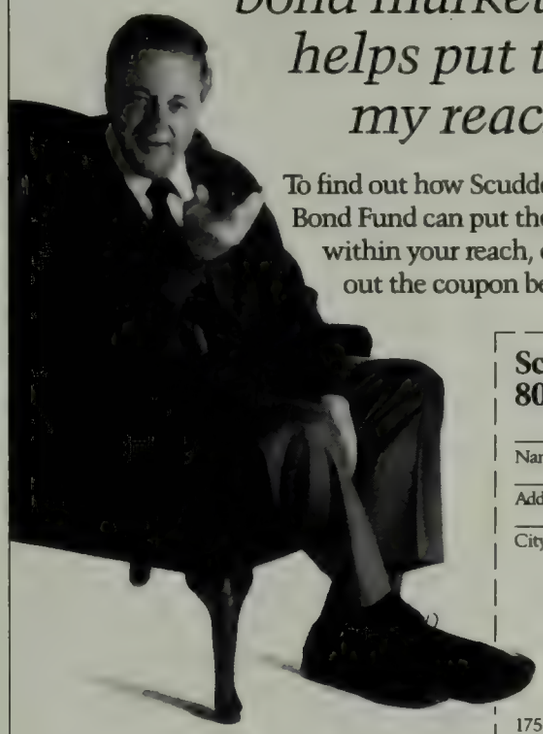

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THE Vanguard GROUP OF INVESTMENT COMPANIES

Fund Distributors

Distributor	Type of fund
Lindner Management Corp PO Box 11208 St Louis, MO 63105 (314) 727-5305 (local) Exchange privilege: No	
Lindner Dividend Fund	ST
Lindner Fund	ST
Lord Abbett & Co 767 Fifth Avenue New York, NY 10153 (212) 848-1800* (local) (800) 223-4224 (out of state) Exchange privilege: Yes	
Affiliated Fund	ST
Lord Abbett Bond-Debenture Fund	BD
Lord Abbett California Tax-Free Inc	MU
Lord Abbett Developing Growth	ST
Lord Abbett Fundamental Value	ST
Lord Abbett Tax-Free–National	MU
Lord Abbett Tax-Free–New York	MU
Lord Abbett US Government Secs	BD
Lord Abbett Value Appreciation	ST
Lutheran Brotherhood Securities 625 Fourth Avenue South Minneapolis, MN 55419 (216) 339-8091 (local) (800) 328-4552 (out of state) Exchange privilege Yes	
Lutheran Brotherhood Fund	ST
Lutheran Brotherhood High Yield	BD
Lutheran Brotherhood Income Fund	BD
Lutheran Brotherhood Muni Bond	MU
Mackenzie Investment Management 1665 Palm Lake Boulevard Suite 604 West Palm Beach, FL 33401 (800) 824-6067 (local) (800) 222-2274 (out of state) Exchange privilege: Yes	
Industrial–Mackenzie American	ST
Industrial–Mackenzie Option Income	BA
Madison Investment Advisors 6411 Mineral Point Road Madison, WI 53705 (608) 273-2020* (nationwide) Exchange privilege: No	
Bascom Hill Balanced Fund	BA
Bascom Hill Investors	ST
Mairs & Power W-2062 First National Bank Building St Paul, MN 55101 (612) 222-8478 (nationwide) Exchange privilege: No	
Mairs & Power Growth Fund	ST
Mairs & Power Income Fund	ST
Horace Mann Growth Fund One Horace Mann Plaza Springfield, IL 62715 (217) 789-2500 (local) (800) 832-2437 (out of state) Exchange privilege: Yes	
Horace Mann Growth Fund	ST

Distributor	Type of fund
Mass Mutual Life Insurance 1295 State Street Springfield, MA 01111 (800) 451-1712 (local) (800) 343-1714 (out of state) Exchange privilege: Yes	
MassMutual Integrity–Invest Grade	BD
Massachusetts Financial Services 200 Berkeley Street Boston, MA 02116 (617) 423-3500* (local) (800) 225-2606 (out of state) Exchange privilege: Yes	
Mass Capital Development Fund	ST
Mass Cash Management–Prime	MM
Mass Financial Bond Fund	BD
Mass Financial Development Fund	ST
Mass Financial Emerging Growth	ST
Mass Financial High Income–Series I	BD
Mass Financial Intl-Bond	FO
Mass Financial Special Fund	ST
Mass Financial Total Return Trust	BA
Mass Investors Growth Stock Fund	ST
Mass Investors Trust	ST
MFS Government Guaranteed Secs	BD
MFS Government Securities Hi Yld	BD
MFS Lifetime Capital Growth Trust	ST
MFS Lifetime Dividends Plus Trust	ST
MFS Lifetime Emerging Growth	ST
MFS Lifetime Global Equity Trust	FO
MFS Lifetime Government Inc Plus	BD
MFS Lifetime High Income Trust	BD
MFS Lifetime Managed Muni Bond	BD
MFS Lifetime Managed Sectors Trust	ST
MFS Managed California Tax-Exempt	MU
MFS Managed High Yield Muni Bond	MU
MFS Managed M-S Tax-Exempt–Md	MU
MFS Managed M-S Tax-Ex–Mass	MU
MFS Managed M-S Tax-Exempt–NC	MU
MFS Managed M-S Tax-Exempt–SC	MU
MFS Managed M-S Tax-Exempt–Va	MU
MFS Managed M-S Tax-Ex–W Va	MU
MFS Managed Muni Bond Trust	MU
MFS Managed Sectors Trust	ST
Mathers Fund 100 Corporate North Suite 201 Bannockburn, IL 60015 (312) 295-7400* (local) (800) 962-3863 (out of state) Exchange privilege: No	
Mathers Fund	ST
McDonald & Co Securities 2100 Society Building Cleveland, OH 44114 (216) 443-2300 (local) (800) 888-1099 (out of state) Exchange privilege: Yes	
McDonald Tax-Exempt MM	MM
Meeschaert & Co 28 Hill Farm Road St Johnsbury, VT 05819 (802) 748-2400 (local) Exchange privilege: No	
Meeschaert Capital Accumulation	ST
Meeschaert Gold and Currency	ST

Distributor	Type of fund
Mercer Allied Corp One Wall Street Albany, NY 12205 (518) 869-8744 (local) Exchange privilege: Yes	
Ayco Fund–Risk	ST
Meridian Fund 60 East Sir Francis Drake Blvd Suite 306 Larkspur, CA 94939 (800) 445-5553 (local) (800) 446-6662 (out of state) Exchange privilege: No	
Meridian Fund	ST
Merrill Lynch Funds Boston One Financial Center 15th Floor Boston, MA 02111 (617) 357-1434 (local) (800) 225-1576 (out of state) Exchange privilege: Yes	
Merrill Lynch Government Fund	MM
Merrill Lynch Institutional Fund	MM
Merrill Lynch Funds Distributor PO Box 9011 Princeton, NJ 08543-9011 (609) 282-2800* (local) (800) 637-3863 (out of state) Exchange privilege: Yes	
Merrill Lynch Basic Value Fund	ST
Merrill Lynch California Tax-Exempt	MU
Merrill Lynch Capital Fund	ST
Merrill Lynch Corp–High Income	BD
Merrill Lynch Corp–High Quality	BD
Merrill Lynch Corp–Intermediate	BD
Merrill Lynch Equi-Bond I Fund	BA
Merrill Lynch EuroFund	FO
Merrill Lynch Federal Securities	BD
Merrill Lynch Fund for Tomorrow	ST
Merrill Lynch International Holdings	FO
Merrill Lynch Muni–High Yield	MU
Merrill Lynch Muni–Insured	MU
Merrill Lynch Muni–Ltd Maturity	MU
Merrill Lynch Municipal Income	MU
Merrill Lynch Natural Resources	ST
Merrill Lynch New York Muni Bond	MU
Merrill Lynch Pacific Fund	FO
Merrill Lynch Phoenix Fund	BA
Merrill Lynch Ready Assets Trust	MM
Merrill Lynch Retire Benefit Inv	BA
Merrill Lynch Retire Equity	ST
Merrill Lynch Retire Global Bond	FO
Merrill Lynch Retire/Income Fund	BD
Merrill Lynch Retire Reserves Money	MM
Merrill Lynch Special Value	ST
Sci/Tech Holdings	ST
Summit Cash Reserves Fund	MM
Merrill Lynch, Pierce, Fenner & Smith One Liberty Plaza 165 Broadway New York, NY 10080 (212) 637-5730 (local) Exchange privilege: Yes	
CMA Government Securities Fund	MM
CMA Money Fund	MM
CMA Tax-Exempt Fund	MM

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Distributor	Type of fund
Mesirow Investment Services 350 North Clark Street Chicago, IL 60610 (312) 670-6035 (local) (800) 458-5222 (nationwide) Exchange privilege: Yes	
Skyline Fund–Balanced	BA
Skyline Fund–Special Equities	ST
MetLife State Street Investment One Financial Center 30th Floor Boston, MA 02111 (617) 348-2000 (local) (800) 882-0052 (out of state) Exchange privilege: Yes	
MetLife-State Street Cap Apprec	ST
MetLife-State Street Equity Income	ST
MetLife-State Street Equity Inv	ST
MetLife-State Street Government Inc	BD
MetLife-State Street Govt Secs	BD
MetLife-State Street High Income	BD
MetLife-State Street High Inc T-E	MU
MGF Distributors 700 Dixie Terminal Building Cincinnati, OH 45202 (800) 582-7396 (local) (800) 543-8721 (out of state) Exchange privilege: Yes	
Financial Independence–Growth	ST
Financial Independence–US Govt	BD
Midwest Group Tax-Free–MM	MM
Midwest Income–Intermediate Govt	BD
MidAmerica Management 4333 Edgewood Road NE Cedar Rapids, IA 52499 (800) 342-4490 (local) (800) 553-4936 (out of state) Exchange privilege: Yes	
MidAmerica High Growth Fund	ST
MidAmerica Mutual Fund	ST
Midvale Securities Corp 11601 Wilshire Boulevard 24th Floor Los Angeles, CA 90025 (800) 225-9655 (local) (800) 545-4322 (out of state) Exchange privilege: Yes	
RNC Convertible Securities	BD
RNC Income Fund	BA
RNC Regency Fund	ST
RNC Westwind Fund	BA
Milwaukee Co 790 North Milwaukee Avenue Milwaukee, WI 53202 (800) 242-1001 (local) (800) 558-1015 (out of state) Exchange privilege: Yes	
Heartland Group–Value Fund	ST
Mimlic Sales Corp PO Box 64132 St Paul, MN 55101 (612) 228-4833 (local) (800) 443-3677 (out of state) Exchange privilege: Yes	
Mimlic Investors Fund I	ST

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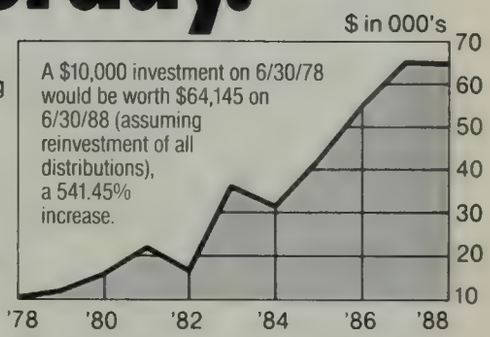

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Fund Distributors

Distributor	Type of fund
Morgan Keegan & Co 50 North Front Street Memphis, TN 38103 (901) 524-4100 (local) (800) 238-7127 (out of state) Exchange privilege: No	
Morgan Keegan Southern Capital	ST
Morgan Stanley & Co 1251 Avenue of the Americas New York, NY 10020 (212) 398-2900 (local) (800) 521-5412 (out of state) Exchange privilege: Yes	
Pierpont Capital Appreciation Fund	ST
Pierpont Equity Fund	ST
Pierpont Money Market	MM
Pierpont Tax-Exempt Bond Fund	MU
Pierpont Tax-Exempt Money Market	MM
Morison Securities 1201 Marquette Avenue Suite 400 Minneapolis, MN 55403 (612) 349-5600 (local) (800) 722-4393 (out of state) Exchange privilege: No	
Morison Asset Allocation Fund	ST
Murphey Favre West 601 Riverside Avenue Spokane, WA 99201 (509) 624-4101 (local) (800) 541-0830 (out of state) Exchange privilege: Yes	
Composite Bond & Stock Fund	BA
Composite Growth Fund	ST
Composite Income Fund	BD
Composite Select–Northwest	ST
Composite Select–Value	ST
Composite Tax-Exempt Bond Fund	MU
Composite US Govt Securities	BD
Mutual Benefit Financial Services Co 290 Westminster Street Providence, RI 02903 (401) 751-8600* (local) (800) 333-4726 (out of state) Exchange privilege: No	
Mutual Benefit Fund	ST
Mutual of Omaha Fund Management 10235 Regency Circle Omaha, NE 68114 (800) 642-8112 (local) (800) 228-9596 (out of state) Exchange privilege: Yes	
Mutual of Omaha America Fund	BD
Mutual of Omaha Growth Fund	ST
Mutual of Omaha Income Fund	BA
Mutual of Omaha Tax-Free Income	MU
National Financial Data Service PO Box 26070 Kansas City, MO 64196-7070 (816) 283-1700 (local) (800) 225-8011 (out of state) Exchange privilege: No	
Neuwirth Fund	ST
Pine Street Fund	ST
Winthrop Focus Funds–Growth	ST

Distributor	Type of fund
National Securities & Research Corp 605 Third Avenue New York, NY 10158-0054 (212) 661-3000* (local) (800) 223-7757 (out of state) Exchange privilege: Yes	
California Tax-Exempt Bonds	MU
Fairfield Fund	ST
National Bond Fund	BD
National Federal Securities Trust	BD
National Growth Fund	ST
National Real Estate–Stock Fund	ST
National Securities Tax-Ex Bonds	MU
National Stock Fund	ST
National Strategic Allocation Fund	BA
National Total Income Fund	BA
National Total Return Fund	BA
Nationwide Financial Services One Nationwide Plaza Columbus, OH 43216 (800) 282-1440 (local) (800) 848-0920 (out of state) Exchange privilege: Yes	
Nationwide Bond Fund	BD
Nationwide Fund	ST
Nationwide Growth Fund	ST
Nationwide Tax-Free Fund	MU
Neuberger & Berman Management 342 Madison Avenue New York, NY 10173 (212) 850-8300* (local) (800) 367-0770 (out of state) Exchange privilege: Yes	
Energy Fund	ST
Guardian Mutual Fund	ST
Manhattan Fund	ST
Neuberger & Berman Ltd Mat Bond	BD
Neuberger & Berman MM Plus	BD
Neuberger & Berman Muni Money	MM
Partners Fund	ST
New England Securities 399 Boylston Street Boston, MA 02117 (617) 267-6600 (local) (800) 343-7104 (out of state) Exchange privilege: Yes	
Loomis-Sayles Capital Development	ST
Loomis-Sayles Mutual Fund	BA
New England Bond Income Fund	BD
New England Cash Mgmt–MM	MM
New England Equity Income Fund	ST
New England Government Securities	BD
New England Growth Fund	ST
New England Retire Equity Fund	ST
New England Tax-Exempt Income	MU
New England Tax-Exempt MM	MM
Newton Fund PO Box 1348 Milwaukee, WI 53201 (414) 347-1141 (local) (800) 247-7039 (out of state) Exchange privilege: Yes	
Newton Growth Fund	ST

Distributor	Type of fund
Nicholas Company 700 North Water Street Milwaukee, WI 53202 (414) 272-6133* (local) (800) 227-5987 (out of state) Exchange privilege: Yes	
Nicholas Fund	ST
Nicholas II	ST
Nicholas Income Fund	BD
Nicholas Limited Edition	ST
Noddings Asset Management 2 MidAmerica Plaza Suite 920 Oakbrook Terrace, IL 60181 (800) 544-7785 (nationwide) Exchange privilege: No	
Noddings Convertible Strategies	BA
Nomura Capital Management 180 Maiden Lane New York, NY 10038 (212) 208-9300 (local) (800) 833-0018 (out of state) Exchange privilege: Yes	
Nomura Pacific Basin Fund	FO
Northeast Investors Trust 50 Congress Street Boston, MA 02109 (617) 523-3588 (local) (800) 225-6704 (out of state) Exchange privilege: Yes	
Northeast Investors Growth	ST
Northeast Investors Trust	BD
Nova Distributors 260 Franklin Street Boston, MA 02110 (800) 572-0006 (nationwide) Exchange privilege: Yes	
Nova Fund	ST
John Nuveen & Co 333 West Wacker Drive Chicago, IL 60606 (800) 621-7210 (nationwide) Exchange privilege: Yes	
Nuveen California Tax-Free–MM	MM
Nuveen California T-F–Spec Bond	MU
Nuveen Insured Tax-Free Bond–Natl	MU
Nuveen Municipal Bond Fund	MU
Nuveen Tax-Exempt Money Market	MM
Nuveen Tax-Free MM–Mass	MM
Nuveen Tax-Free Reserves	MM
NYLife Securities 51 Madison Avenue New York, NY 10010 (800) 848-3863 (local) Exchange privilege: Yes	
MacKay-Shields MainStay–Cap Ap	ST
MacKay-Shields MainStay–Convert	BA
MacKay-Shields MainStay–Global	FO
MacKay-Shields MainStay–Govt Plus	BD
MacKay-Shields MainStay–H-Y Corp	BD
MacKay-Shields MainStay–T-F Bond	MU
MacKay-Shields MainStay–Value	ST

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Distributor	Type of fund
Oberweis Emerging Growth 841 North Lake Street Aurora, IL 60506 (800) 942-0850 (local) (800) 323-6166 (out of state) Exchange privilege: No	
Oberweis Emerging Growth	ST
Ohio Company 155 East Broad Street Columbus, OH 43215 (614) 464-6852 (local) (800) 848-7734 (out of state) Exchange privilege: Yes	
Cardinal Fund	ST
Cardinal Government Guaranteed	BD
Cardinal Tax-Exempt Money Trust	MM
Olympic Trust 800 West Sixth Street Suite 540 Los Angeles, CA 90017 (213) 623-7833 (local) (800) 346-7301 (out of state) Exchange privilege: No	
Olympic Trust–Balanced Income	BA
Olympic Trust–Equity Income	ST
Olympic Trust–Small Cap Fund	ST
Oppenheimer Fund Management PO Box 300 Denver, CO 80201 (303) 671-3200 (local) (800) 525-7048 (out of state) Exchange privilege: Yes	
Oppenheimer Asset Allocation Fund	BD
Oppenheimer Blue Chip Fund	ST
Oppenheimer Directors Fund	ST
Oppenheimer Equity Income Fund	ST
Oppenheimer Fund	ST
Oppenheimer Global Fund	FO
Oppenheimer GNMA Fund	BD
Oppenheimer Gold & Special Mins	ST
Oppenheimer High Yield Fund	BD
Oppenheimer Money Market Fund	MM
Oppenheimer New York Tax-Exempt	MU
Oppenheimer Ninety Ten Fund	ST
Oppenheimer OTC Fund	ST
Oppenheimer Premium Income	ST
Oppenheimer Regency Fund	ST
Oppenheimer Special Fund	ST
Oppenheimer Target Fund	ST
Oppenheimer Tax-Free Bond Fund	MU
Oppenheimer Time Fund	ST
Oppenheimer Total Return Fund	ST
Oppenheimer US Government	BD
Pacific Financial Research 9601 Wilshire Boulevard Suite 828 Beverly Hills, CA 90210 (213) 278-4461* (nationwide) Exchange privilege: No	
Clipper Fund	ST

Distributor	Type of fund
PaineWebber 1285 Avenue of the Americas New York, NY 10019 (800) 544-9300 (nationwide) Exchange privilege: Yes	
PaineWebber America Fund	ST
PaineWebber Asset Allocation	ST
PaineWebber Atlas Fund	FO
PaineWebber Calif Tax-Exempt Inc	MU
PaineWebber Cashfund	MM
PaineWebber Fixed Inc–GNMA	BD
PaineWebber Fixed Inc–High Yield	BD
PaineWebber Fixed Inc–Invest Grade	BD
PaineWebber High Yield Muni Bond	MU
PaineWebber Master Global Income	FO
PaineWebber Master Growth	ST
PaineWebber Master Income	BD
PaineWebber Olympus Fund	ST
PaineWebber RMA–Money Market	MM
PaineWebber RMA–Tax-Free	MM
PaineWebber Tax-Exempt Income	MU
Pallas Financial Corp One Burton Hills Boulevard Suite 355 Nashville, TN 37215 (615) 665-1700* (local) (800) 251-1970 (out of state) Exchange privilege: Yes	
Monitrend Value Fund	ST
Palm Beach Capital Management 205 Royal Palm Way Palm Beach, FL 33480 (407) 655-7255 (local) (800) 289-2281 (nationwide) Exchange privilege: Yes	
ABT Growth & Income Trust	ST
ABT Invest–Emerging Growth	ST
ABT Invest–Security Income	ST
ABT Utility Income Fund	ST
Paribas Asset Management 787 Seventh Avenue New York, NY 10019 (212) 841-3000* (local) (800) 233-1137 (out of state) Exchange privilege: No	
Paribas Trust–Quantus Equity	ST
Parnassus Financial Management 244 California Street San Francisco, CA 94111 (415) 362-3505* (local) Exchange privilege: No	
Parnassus Fund	ST
Pasadena Growth Fund 600 North Rosemead Boulevard Pasadena, CA 91107-2101 (818) 351-4276* (local) (800) 882-2855 (out of state) Exchange privilege: No	
Pasadena Growth Fund	ST
Pax World Fund 224 State Street Portsmouth, NH 03801 (603) 431-8022 (local) Exchange privilege: No	
Pax World Fund	BA

Distributor	Type of fund
Penn Square Management 2650 Westview Drive Wyomissing, PA 19610 (800) 222-7506 (local) (800) 523-8440 (out of state) Exchange privilege: Yes	
Penn Square Mutual Fund	ST
Pennsylvania Mutual Fund 1414 Avenue of the Americas New York, NY 10019 (212) 355-7311* (local) (800) 221-4268 (out of state) Exchange privilege: No	
Pennsylvania Mutual Fund	ST
Permanent Portfolio PO Box 5847 Austin, TX 78763 (512) 453-7558 (local) (800) 531-5142 (out of state) Exchange privilege: Yes	
Permanent Portfolios–Permanent	ST
Phoenix Equity Planning Corp One American Row Hartford, CT 06115 (203) 278-8050* (local) (800)-243-4361 (out of state) Exchange privilege: Yes	
Phoenix Balanced Fund	BA
Phoenix Convertible Fund	BA
Phoenix Growth Fund	ST
Phoenix High Yield Fund	BD
Phoenix Stock Fund	ST
Phoenix Total Return	ST
Pilgrim Group 10100 Santa Monica Boulevard 21st Floor Los Angeles, CA 90067 (800) 331-1080 (local) (800) 334-3444 (out of state) Exchange privilege: Yes	
Pilgrim GNMA Fund	BD
Pilgrim High Yield Trust	BD
Pilgrim MagnaCap Fund	ST
Pilgrim Preferred Fund	BD
Pilgrim Rising Profitability Fund	ST
Pioneer Group 60 State Street Boston, MA 02109 (617) 742-7825* (local) (800) 225-6292 (out of state) Exchange privilege: Yes	
Pioneer Bond Fund	BD
Pioneer Fund	ST
Pioneer II	ST
Pioneer Three	ST
Prescott, Ball & Turben 230 West Monroe Street Suite 2800 Chicago, IL 60606 (800) 553-5533 (nationwide) Exchange privilege: Yes	
Selected American Shares	ST
Selected Special Shares	ST

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Distributor	Type of fur
T Rowe Price Associates 100 East Pratt Street Baltimore, MD 21202 (301) 547-2308* (local) (800) 638-5660 (nationwide) Exchange privilege: Yes	
T Rowe Price Calif T-F Inc–Bond	MU
T Rowe Price Calif T-F Inc–Money	MM
T Rowe Price Capital Appreciation	ST
T Rowe Price Equity Income Fund	ST
T Rowe Price GNMA Fund	BD
T Rowe Price Growth & Income	ST
T Rowe Price Growth Stock Fund	ST
T Rowe Price High Yield Fund	BD
T Rowe Price International Bond	FO
T Rowe Price International Stock	FO
T Rowe Price Maryland T-F Bond	MU
T Rowe Price New America Growth	ST
T Rowe Price New Era Fund	ST
T Rowe Price New Horizons Fund	ST
T Rowe Price New Income Fund	BD
T Rowe Price New York T-F Bond	MU
T Rowe Price New York T-F Money	MM
T Rowe Price Prime Reserve Fund	MM
T Rowe Price Short-Term Bond Fund	BD
T Rowe Price Tax-Exempt Money	MM
T Rowe Price Tax-Free High Yield	MU
T Rowe Price Tax-Free Income Fund	MU
T Rowe Price T-F Short Intermed	MU
Primary Trend Fund First Financial Centre 700 North Water Street Milwaukee, WI 53202 (800) 443-6544 (nationwide) Exchange privilege: No	
Primary Trend Fund	ST
Princor Financial Services Corp 711 High Street Des Moines, IA 50309 (515) 247-5711 (local) Exchange privilege: Yes	
Princor Capital Accumulation Fund	ST
Princor Government Securities Inc	BD
Princor Growth Fund	ST
Prudential-Bache One Seaport Plaza Mutual Funds-18th Floor New York, NY 10292 (212) 214-1216 (local) (800) 225-1852 (nationwide) Exchange privilege: Yes	
Pru-Bache California Municipal	MU
Pru-Bache Equity Fund	ST
Pru-Bache Equity Income	ST
Pru-Bache Global Fund	FO
Pru-Bache Global Genesis	FO
Pru-Bache Global Natural Resources	FO
Pru-Bache GNMA Fund	BD
Pru-Bache Government Plus	BD
Pru-Bache Government Plus II	BD
Pru-Bache Govt Secs–Intermediate	BD
Pru-Bache Growth Opportunity	ST
Pru-Bache High Yield Fund	BD
Pru-Bache IncomeVertible Plus	BA
Pru-Bache Moneymart Assets	MM
Pru-Bache Muni–Arizona	MU
Pru-Bache Muni–Maryland	MU
Pru-Bache Muni–Massachusetts	MU
Pru-Bache Muni–Michigan	MU
Pru-Bache Muni–New York	MU
Pru-Bache Muni–New York MM	MM

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Distributor	Type of fund
Pru-Bache Muni–North Carolina	MU
Pru-Bache Muni–Ohio	MU
Pru-Bache Muni–Pennsylvania	MU
Pru-Bache National Municipals	MU
Pru-Bache Option Growth Fund	ST
Pru-Bache Research Fund	ST
Pru-Bache Tax-Free Money Fund	MM
Pru-Bache Utility Fund	ST
Putnam Financial Services One Post Office Square Boston, MA 02109 (617) 292-1000 (local) (800) 225-1581 (out of state) Exchange privilege: Yes	
Depositors Invest–Capital Growth	ST
Putnam California Tax-Exempt Inc	MU
Putnam Capital Fund	ST
Putnam Convertible Income-Growth	BA
Putnam Daily Dividend Trust	MM
Putnam Energy-Resources Trust	ST
Putnam Fund for Growth & Income	ST
George Putnam Fund of Boston	BA
Putnam Global Government Income	FO
Putnam GNMA Plus Trust	BD
Putnam Health Sciences Trust	ST
Putnam High Income Government	BD
Putnam High Yield Trust	BD
Putnam High Yield Trust II	BD
Putnam Income Fund	BD
Putnam Information Sciences Trust	ST
Putnam International Equities Fund	FO
Putnam Investors Fund	ST
Putnam Massachusetts Tax-Ex Inc	MU
Putnam Michigan Tax-Exempt Inc	MU
Putnam New York Tax-Exempt Inc	MU
Putnam Ohio Tax-Exempt Income	MU
Putnam Option Income Trust	ST
Putnam Option Income Trust II	ST
Putnam OTC Emerging Growth Fund	ST
Putnam Tax-Exempt Income Fund	MU
Putnam Tax-Free Income–High Yield	MU
Putnam Tax-Free Income–Insured	MU
Putnam US Govt Guaranteed Secs	BD
Putnam Vista Basic Value	ST
Putnam Voyager Fund	ST
Quest Distributors 1414 Avenue of the Americas New York, NY 10019 (212) 355-7311* (local) (800) 221-4268 (out of state) Exchange privilege: Yes	
Royce Fund–Total Return	BA
Royce Fund–Value	ST
Quest for Value 200 Liberty Street New York, NY 10281 (212) 667-7587 (local) (800) 232-3863 (out of state) Exchange privilege: Yes	
Quest for Value Cash Management	MM
Quest for Value Fund	ST
James B Rea 10966 Chalon Road Suite 1625 Los Angeles, CA 90077 (213) 471-1917* (local) (800) 433-1998 (out of state) Exchange privilege: No	
Rea-Graham Fund	BA

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Fund Distributors

Distributor	Type of fund
Reich & Tang LP 100 Park Avenue 28th Floor New York, NY 10017 (212) 370-1240* (local) (800) 221-3077 (out of state) Exchange privilege: Yes	
California Daily Tax-Free Income	MM
Connecticut Daily Tax-Free Income	MM
Daily Income Fund	MM
Daily Tax-Free Income Fund	MM
Empire Tax-Free Money Market	MM
Reich & Tang Equity Fund	ST
Short-Term Income–Money Market	MM
Sound Shore Fund	ST
Resrv Partners 810 Seventh Avenue New York, NY 10019 (212) 977-9880* (local) (800) 223-5547 (out of state) Exchange privilege: Yes	
Reserve Equity–Contrarian	ST
Reserve Fund–Primary	MM
Reserve New York Tax-Exempt–NY	MM
Reserve Tax-Exempt–Connecticut	MM
Reserve Tax-Exempt Trust–Interstate	MM
Review Management Corp PO Box 1537 Fort Washington, PA 19034-1537 (215) 643-2510* (local) (800) 523-2578 (out of state) Exchange privilege: No	
Over-the-Counter Securities Fund	ST
Rochester Fund Distributors 379 Park Avenue Rochester, NY 14607 (716) 442-5500* (local) Exchange privilege: Yes	
Rochester Convertible–Growth	BA
Rochester Convertible–Income	BA
Rochester Fund Municipals	MU
Rochester Tax Managed Fund	ST
Ruane, Cunniff & Co 1370 Avenue of the Americas New York, NY 10019 (212) 245-4500 (local) Exchange privilege: No	
Sequoia Fund	ST

Distributor	Type of fund
Rushmore Group 4922 Fairmont Avenue Bethesda, MD 20814 (301) 657-1500 (local) (800) 343-3355 (nationwide) Exchange privilege: Yes	
Fund for Govt Investors	MM
Fund for Tax-Free Inv–Money Market	MM
Rushmore–OTC Index Plus	ST
Rushmore–Stock Market Index Plus	ST
Safeco Securities Safeco Plaza Seattle, WA 98185 (206) 545-5530 (local) (800) 426-6730 (out of state) Exchange privilege: Yes	
Safeco California Tax-Free Income	MU
Safeco Equity Fund	ST
Safeco Growth Fund	ST
Safeco Income Fund	ST
Safeco Municipal Bond Fund	MU
Safeco Tax-Free Money Market	MM
Safeco US Government Securities	BD
SBSF Funds 45 Rockefeller Plaza New York, NY 10111 (212) 903-1200* (local) (800) 422-7273 (nationwide) Exchange privilege: Yes	
SBSF–Growth Fund	ST
Schield Securities 390 Union Boulevard Denver, CO 80228 (800) 233-4971 (local) (800) 826-8154 (out of state) Exchange privilege: Yes	
Schield–Aggressive Growth	ST
Schield–Value	ST
Scudder Fund Distributors 160 Federal Street Boston, MA 02110 (800) 225-2470 (nationwide) Exchange privilege: Yes	
AARP Growth Trust–Capital Growth	ST
AARP Growth–Growth & Income	ST
AARP Income Trust–General Bond	BD
AARP Income–GNMA & US Treas	BD
AARP Insured T-F Inc–Genl Bond	MU
AARP Insured T-F Inc–S-T Bond	MU
Japan Fund	FO
Scudder California Tax-Free Fund	MU
Scudder California Tax-Free Money	MM
Scudder Cash Investment Trust	MM
Scudder Development Fund	ST
Scudder Equity–Capital Growth	ST
Scudder Equity–Equity Income	ST
Scudder Global Fund	FO
Scudder GNMA Fund	BD
Scudder Growth & Income Fund	ST
Scudder High Yield Tax-Free Fund	MU
Scudder Income Fund	BD
Scudder International Fund	FO
Scudder Managed Municipal Bonds	MU
Scudder NY Tax-Free Fund	MU
Scudder NY Tax-Free Money Fund	MM
Scudder Tax-Free Money Fund	MM
Scudder Tax-Free Target–1990	MU
Scudder Tax-Free Target–1993	MU
Scudder Tax-Free Target–1996	MU

Distributor	Type of fund
Securities Management & Research Two Moody Plaza Galveston, TX 77550 (800) 392-9753 (local) (800) 231-4639 (out of state) Exchange privilege: Yes	
American National Growth Fund	ST
American National Income Fund	ST
Triflex Fund	BA
Security Distributors 700 Harrison Street Topeka, KS 66636 (800) 888-2461 (local) Exchange privilege: Yes	
Security Action Fund	ST
Security Equity Fund	ST
Security Income–Corporate Bond	BD
Security Investment Fund	ST
Security Omni Fund	ST
Security Ultra Fund	ST
Seligman Marketing One Bankers Trust Plaza New York, NY 10006 (800) 522-6869 (local) (800) 221-2450 (out of state) Exchange privilege: Yes	
Seligman Calif Tax-Exempt–High Yld	MU
Seligman Calif Tax-Exempt–Quality	MU
Seligman Capital Fund	ST
Seligman Common Stock Fund	ST
Seligman Commun & Information	ST
Seligman Growth Fund	ST
Seligman High Inc–High Yield Bond	BD
Seligman High Inc–Secured Mortgage	BD
Seligman High Inc–US Govt Guar	BD
Seligman Income Fund	BA
Seligman Penn Tax-Exempt–Quality	MU
Seligman Tax-Exempt–Colorado	MU
Seligman Tax-Exempt–Louisiana	MU
Seligman Tax-Exempt–Maryland	MU
Seligman Tax-Exempt–Mass	MU
Seligman Tax-Exempt–Michigan	MU
Seligman Tax-Exempt–Minnesota	MU
Seligman Tax-Exempt–Missouri	MU
Seligman Tax-Exempt–National	MU
Seligman Tax-Exempt–New York	MU
Seligman Tax-Exempt–Ohio	MU
Seligman Tax-Exempt–Oregon	MU

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Distributor	Type of fund
Sentry Equity Services 1800 North Point Drive Stevens Point, WI 54481 (800) 472-0280 (local) (800) 826-0266 (out of state) Exchange privilege: No	
Sentry Fund	ST
Shearson Lehman Hutton One Western Union Plaza 15th Floor New York, NY 10004 (212) 825-3115 (local) Exchange privilege: Yes	
American Telecom–Growth	ST
Cash Reserve Management	MM
Hutton AMA Cash Fund	MM
Hutton California Municipal Fund	MU
Hutton Government Fund	MM
Hutton Investment–Basic Value	ST
Hutton Investment–Bond & Income	BD
Hutton Investment–Govt Secs	BD
Hutton Investment–Growth	ST
Hutton Investment–Option Income	ST
Hutton Investment–Prec Metals	ST
Hutton Investment–Short-Term Inv	MM
Hutton Investment–Spec Equities	ST
Hutton National Municipal Fund	MU
Hutton New York Municipal Fund	MU
Lehman Capital Fund	ST
Lehman Investors Fund	ST
Lehman Management T-F Reserves	MM
Lehman Opportunity Fund	ST
Municipal Cash Reserve Mgmt	MM
Shearson Daily Tax-Free Dividend	MM
Shearson FMA Cash Fund	MM
Shearson FMA Government Fund	MM
Shearson FMA Municipal Fund	MM
Shearson Government & Agencies	MM
Shearson Lehman Aggressive Growth	ST
Shearson Lehman Appreciation Fund	ST
Shearson Lehman Calif Daily T-F	MM
Shearson Lehman California Munis	MU
Shearson Lehman Daily Dividend	MM
Shearson Lehman Fundamental Value	ST
Shearson Lehman Global Oppor	FO
Shearson Lehman High Yield Fund	BD
Shearson Lehman Managed Govts	BD
Shearson Lehman Managed Munis	MU
Shearson Lehman Multi Oppor LP	ST
Shearson Lehman NY Daily Tax-Free	MM
Shearson Lehman New York Munis	MU
Shearson Lehman Prec Metals	FO
Shearson Lehman–Convertible Secs	BA
Shearson Lehman–Equity Growth	ST
Shearson Lehman–Equity Plus	ST
Shearson Lehman–Global Bond	FO
Shearson Lehman–High Income Bond	BD
Shearson Lehman–Intermediate Govt	BD
Shearson Lehman–Intl Equity	FO
Shearson Lehman–Long-Term Govt	BD
Shearson Lehman–Mortgage Secs	BD
Shearson Lehman–Option Income	ST
Shearson Lehman–Strategic Investors	ST
Shearson Lehman–Tax-Exempt Inc	MU

Distributor	Type of fund
Sheffield Investments 41 Madison Avenue New York, NY 10010 (212) 779-7979* (local) (800) 922-7771 (out of state) Exchange privilege: No	
Blanchard Strategic Growth	FO
Sherman, Dean Fund 6061 NW Expressway Suite 465 San Antonio, TX 78201 (512) 735-7700 (local) (800) 247-6375 (out of state) Exchange privilege: No	
Sherman, Dean Fund	ST
Sierra Growth Fund 1801 Century Park East Suite 1800 Los Angeles, CA 90067 (213) 277-1450 (local) (800) 367-7814 (out of state) Exchange privilege: No	
National Industries Fund	ST
Sigma Investor Services Greenville Center C-200 3801 Kennett Pike Wilmington, DE 19807 (302) 652-3091* (local) (800) 441-9490 (out of state) Exchange privilege: Yes	
ISI Growth Fund	ST
ISI Trust Fund	ST
Sigma Capital Shares	ST
Sigma Income Shares	BD
Sigma Investment Shares	ST
Sigma Special Fund	ST
Sigma Trust Shares	BA
Sigma Value Shares	ST
Sigma Venture Shares	ST
Sigma World Fund	FO
Sit Investment Associates 1714 First Bank Place West Minneapolis, MN 55402 (612) 332-3223 (local) (800) 332-5580 (out of state) Exchange privilege: Yes	
Sit New Beginning Growth Fund	ST
Sit New Beginning Income & Growth	ST

Distributor	Type of fund
Smith Barney, Harris Upham & Co 1345 Avenue of the Americas New York, NY 10005 (212) 698-6000 (local) (800) 221-8806 (out of state) Exchange privilege: Yes	
Muni Bond Funds–California	MU
Muni Bond Funds–National	MU
National Liquid Reserves–Cash	MM
Smith Barney Equity Fund	ST
Smith Barney–Income & Growth	ST
Smith Barney–Income Return	BD
Smith Barney–US Government	BD
Tax-Free Money Fund	MM
Vantage Money Market–Cash	MM
Sogen Securities Corp 520 Madison Avenue New York, NY 10022 (212) 832-0022 (local) (800) 334-2143 (out of state) Exchange privilege: No	
SoGen International Fund	FO
Southeastern Asset Management 15 North 21st Street Birmingham, AL 35203 (205)-252-3681* (local) (800) 445-9469 (out of state) Exchange privilege: No	
Southeastern Asset Mgmt Value	ST
Sovereign Advisers 985 Old Eagle School Road Suite 515A Wayne, PA 19087 (215) 254-0703* (local) Exchange privilege: No	
Sovereign Investors	ST
State Bond Sales Corp 100-106 North Minnesota Street Minneapolis, MN 56073 (507) 354-2144* (local) (800) 328-4735 (out of state) Exchange privilege: Yes	
State Bond Common Stock Fund	ST
State Bond Diversified Fund	ST
State Bond Progress Fund	ST
State Bond Tax-Exempt Fund	MU
State Street Research & Management One Financial Center Boston, MA 02111 (617) 482-3920 (local) Exchange privilege: No	
State Street Investment Corp	ST
Steadman Security Corp 1730 K Street NW Washington, DC 20006 (202) 223-1000 (local) (800) 424-8570 (nationwide) Exchange privilege: Yes	
Steadman American Industry Fund	ST
Steadman Associated Fund	ST
Steadman Investment Fund	ST
Steadman Oceanographic	ST

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Fund Distributors

Distributor	Type of fund
Stein Roe & Farnham PO Box 1162 Chicago, IL 60690 (800) 338-2550 (nationwide) Exchange privilege: Yes	
SteinRoe Equity–Capital Oppor	ST
SteinRoe Equity–Discovery Fund	ST
SteinRoe Equity–Prime Equities	ST
SteinRoe Equity–Special Fund	ST
SteinRoe Equity–Stock Fund	ST
SteinRoe Equity–Total Return Fund	BA
SteinRoe Equity–Universe Fund	ST
SteinRoe Income–Cash Reserves	MM
SteinRoe Income–Governments Plus	BD
SteinRoe Income–High Yield Bonds	BD
SteinRoe Income–Managed Bonds	BD
SteinRoe T-E Income–High Yield	MU
SteinRoe T-E Inc–Intermediate	MU
SteinRoe Tax-Ex Income–Managed	MU
SteinRoe Tax-Ex Income–Money	MM
Strategic Distributors 2030 Royal Lane Dallas, TX 75229 (214) 484-1326* (local) (800) 527-5027 (out of state) Exchange privilege: Yes	
Strategic Capital Gains	ST
Strategic Investments Fund	ST
Strategic Silver Fund	ST
Stratton Management 610 West Germantown Pike Suite 361 Plymouth Meeting, PA 19462 (215) 941-0888 (local) (800) 634-5726 (nationwide) Exchange privilege: Yes	
Stratton Growth Fund	ST
Stratton Monthly Dividend Shares	ST
Strong/Corneliuson Capital Mgmt PO Box 2936 Milwaukee, WI 53201-2936 (414) 359-1400* (local) (800) 368-3863 (nationwide) Exchange privilege: Yes	
Strong Income Fund	BD
Strong Investment Fund	BA
Strong Opportunity Fund	ST
Strong Tax-Free Money Market Fund	MM
Strong Total Return Fund	BA
Templeton Funds Distributors 700 Central Avenue St Petersburg, FL 33701 (813) 823-8712* (local) (800) 237-0738 (out of state) Exchange privilege: Yes	
Templeton Foreign Fund	FO
Templeton Global I	FO
Templeton Global II	FO
Templeton Growth Fund	FO
Templeton Income Fund	BA
Templeton World Fund	FO
Thompson, Unger & Plumb PO Box 55320 Madison, WI 53705 (608) 231-1676 (local) Exchange privilege: No	
Thompson, Unger & Plumb Fund	ST

Distributor	Type of fund
Thomson McKinnon Securities One State Street Plaza New York, NY 10004 (212) 482-5894 (local) (800) 628-1237 (out of state) Exchange privilege: Yes	
Cash Accumulation–National MM	MM
Cash Accumulation–National Tax-Ex	MM
Thomson McKinnon Inv–Global	FO
Thomson McKinnon Inv–Growth	ST
Thomson McKinnon Inv–Income	BD
Thomson McKinnon Inv–Oppor	ST
Thomson McKinnon Inv–Tax-Ex	MU
Thomson McKinnon Inv–US Govt	BD
Thornburg Securities 119 East Marcy Street Suite 202 Santa Fe, NM 87501 (505) 984-0200 (local) (800) 847-0200 (out of state) Exchange privilege: Yes	
Limited Term Municipal–National	MU
Transamerica Investment Services PO Box 2438 Los Angeles, CA 90051 (213) 742-2222* (local) (800) 343-6840 (out of state) Exchange privilege: No	
Transamerica Cash Reserve	MM
Trusteed Funds One Winthrop Square Boston, MA 02110 (800) 462-1199 (local) (800) 343-2902 (out of state) Exchange privilege: Yes	
Commonwealth Indenture A & B	ST
Commonwealth Indenture C	ST
GPM Fund	BA
Tucker, Anthony & RL Day One Beacon Street 3rd Floor Boston, MA 02108 (800) 392-6037 (local) (800) 225-6258 (out of state) Exchange privilege: Yes	
Freedom Equity Value Fund	ST
Freedom Inv–Gold & Government	ST
Freedom Inv–Government Plus	BD
Freedom Inv–Regional Bank	ST
Freedom Inv II–Global Fund	FO
Freedom Inv II–Global Income Plus	FO
Tocqueville Fund	ST
Tucker Anthony Cash Management	MM
Tucker Anthony Tax-Exempt Money	MM
Twentieth Century Investors 4500 Main Street Kansas City, MO 64111 (816) 531-5575 (local) (800) 345-2021 (out of state) Exchange privilege: Yes	
20th Century Giftrust Investors	ST
20th Century Growth Investors	ST
20th Century Select Investors	ST
20th Century Ultra Investors	ST
20th Century US Governments	BD
20th Century Vista Investors	ST

Distributor	Type of fund
Unified Management Corp 429 North Pennsylvania Street Indianapolis, IN 46204-1897 (317) 634-3300 (local) (800) 862-7283 (out of state) Exchange privilege: Yes	
Unified Growth Fund	ST
Unified Income Fund	BA
Unified Mutual Shares	ST
United Services Advisors PO Box 29467 San Antonio, TX 78229-0467 (512) 696-1234* (local) (800) 873-8637 (nationwide) Exchange privilege: Yes	
United Services–Gold Shares Fund	FO
United Services–Good & Bad Times	ST
United Services–Growth Fund	ST
United Services–New Prospector	ST
United Services–Prospector Fund	FO
US Boston Investment 6 New England Executive Park Burlington, MA 01803 (617) 272-6420 (local) Exchange privilege: Yes	
US Boston Invest–Growth & Income	ST
US Boston Invest–Foreign Perform	FO
USAA Investment Mgmt Co USAA Building San Antonio, TX 78288 (512) 498-8000 (local) (800) 531-8000 (out of state) Exchange privilege: Yes	
USAA Investment–Cornerstone Fund	ST
USAA Investment–Gold Fund	ST
USAA Mutual–Growth Fund	ST
USAA Mutual–Income Fund	BD
USAA Mutual–Income Stock Fund	ST
USAA Mutual–Money Market	MM
USAA Mutual–Sunbelt Era Fund	ST
USAA Tax-Exempt–High Yield	MU
USAA Tax-Exempt–Intermediate	MU
USAA Tax-Exempt Fund–MM	MM
USAA Tax-Exempt Fund–Short-Term	MU
Valley Forge Fund PO Box 262 Valley Forge, PA 19481 (215) 688-6839 (local) Exchange privilege: No	
Valley Forge Fund	ST
Value Line Securities 711 Third Avenue New York, NY 10017 (800) 223-0818 (nationwide) Exchange privilege: Yes	
Value Line Aggressive Income Trust	BD
Value Line Cash Fund	MM
Value Line Convertible Fund	ST
Value Line Fund	ST
Value Line Income Fund	ST
Value Line Leveraged Growth Inv	ST
Value Line Special Situations Fund	ST
Value Line Tax-Exempt–High Yield	MU
Value Line Tax-Exempt–MM	MM
Value Line US Government Secs	BD

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Distributor	Type of fund
Van Eck Securities Corp 122 East 42nd Street 42nd Floor New York, NY 10168 (212) 687-5200* (local) (800) 221-2220 (out of state) Exchange privilege: Yes	
Van Eck Gold/Resources Fund	ST
Van Eck International Investors	FO
Van Eck World Income Fund	BD
Van Eck World Trends Fund	FO
Van Kampen Merritt 1001 Warrenville Road Lisle, IL 60532 (312) 983-2064 (local) (800) 285-2222 (nationwide) Exchange privilege: Yes	
Van Kampen Merritt Cal Insured T-F	MU
Van Kampen Merritt Growth & Inc	ST
Van Kampen Merritt High Yield	BD
Van Kampen Merritt Insured T-F	MU
Van Kampen Merritt Tax-Free Hi Inc	MU
Van Kampen Merritt US Government	BD
Vanguard Group of Investment Cos PO Box 2600 Valley Forge, PA 19482 (800) 662-7447 (nationwide) Exchange privilege: Yes	
Vanguard Adj Rate Preferred Stk	BD
Vanguard Bond Market Fund	BD
Vanguard California T-F–Ins L-T	MU
Vanguard California T-F–MM	MM
Vanguard Convertible Securities	BA
Vanguard Explorer Fund	ST
Vanguard Explorer II	ST
Vanguard Fixed Income–GNMA	BD
Vanguard Fixed Income–High Yield	BD
Vanguard Fixed Income–Invest Grade	BD
Vanguard Fixed Income–Short-Term	BD
Vanguard Fixed Income–US Treasury	BD
Vanguard High Yield Stock	ST
Vanguard Index Trust–500 Portfolio	ST
Vanguard MM Reserves–Federal	MM
Vanguard MM Reserves–Prime	MM
Vanguard WL Morgan Growth Fund	ST
Vanguard Muni Bond–High Yield	MU
Vanguard Muni Bond–Insured L-T	MU
Vanguard Muni Bond–Intermediate	MU
Vanguard Muni Bond–Long-Term	MU
Vanguard Muni Bond–Money Market	MM
Vanguard Muni Bond–Short-Term	MU
Vanguard Naess & Thomas Spec	ST
Vanguard New York Insured T-F	MU
Vanguard Penn Tax-Free–Insured L-T	MU
Vanguard Preferred Stock Fund	BD
Vanguard PRIMECAP Fund	ST
Vanguard Quantitative Portfolios	ST
Vanguard Special–Technology	ST
Vanguard Special–Energy	ST
Vanguard Spec–Gold & Prec Metals	FO
Vanguard Special–Health Care	ST
Vanguard Special–Service Economy	ST
Vanguard STAR Fund	BA
Vanguard Trustees Commingled–Intl	FO
Vanguard Trustees Commingled–US	ST
Vanguard Wellesley Income Fund	BA
Vanguard Wellington Fund	BA
Vanguard Windsor Fund	ST
Vanguard Windsor II	ST
Vanguard World–International Grow	FO
Vanguard World–US Growth	ST

Distributor	Type of fund
Variable Stock Fund One Monarch Place 12th Floor Springfield, MA 01144 (413) 781-3000 (local) Exchange privilege: No	
Variable Stock Fund	ST
Venture Advisers PO Box 1688 Santa Fe, NM 87504-1688 (505) 983-4335 (local) (800) 545-2098 (out of state) Exchange privilege: Yes	
New York Venture Fund	ST
RPF of America–Bond Fund	BD
RPF of America–Equity Fund	ST
Venture Income (+) Plus	BD
Venture Muni (+) Plus	MU
Voyageur Asset Management 100 South Fifth Street Suite 2300 Minneapolis, MN 55402 (612) 341-6748 (local) (800) 328-4085 (nationwide) Exchange privilege: Yes	
Double Exempt Capital Conservation	MU
Double Exempt Flex Fund	MU
Waddell & Reed 2400 Pershing Road PO Box 418343 Kansas City, MO 64141-9343 (816) 283-4000 (local) (800) 821-5664 (out of state) Exchange privilege: Yes	
United Accumulative Fund	ST
United Bond Fund	BD
United Continental Income Fund	BA
United Gold & Government Fund	BA
United Government Securities	BD
United High Income Fund	BD
United High Income Fund II	BD
United Income Fund	ST
United International Growth	FO
United Municipal Bond Fund	MU
United Municipal High Income	MU
United New Concepts Fund	ST
United Retirement Shares	BA
United Science & Energy Fund	ST
United Vanguard Fund	ST

Distributor	Type of fund
Wall Street Management Corp 641 Lexington Avenue 21st Floor New York, NY 10022 (212) 319-9400* (local) Exchange privilege: No	
Wall Street Fund	ST
Washington Fund Distributors 1101 Vermont Avenue NW Washington, DC 20005 (202) 842-5320* (local) (800) 972-9274 (out of state) Exchange privilege: No	
Growth Fund of Washington	ST
Weiss, Peck & Greer One New York Plaza New York, NY 10004 (212) 908-9582 (local) (800) 223-3332 (out of state) Exchange privilege: Yes	
Tudor Fund	ST
WPG Fund	ST
WPG Government Securities Fund	BD
WPG Growth Fund	ST
Weitz Value Fund 9110 West Dodge Road Embassy Plaza, Suite 210 Omaha, NE 68114-3316 (402) 391-1980* (local) Exchange privilege: No	
Weitz Value Fund	ST
Wheat First Securities PO Box 1357 Richmond, VA 23211 (804) 649-2311* (local) (800) 999-4328 (out of state) Exchange privilege: No	
Southeastern Growth Fund	ST
BC Ziegler & Co 215 North Main Street West Bend, WI 53095 (414) 334-5521* (local) (800) 558-1776 (out of state) Exchange privilege: Yes	
Principal Preservation–Div Achievers	ST
Principal Preservation–Govt Plus	BD
Principal Preservation–Retirement	ST
Principal Preservation–S&P 100 Plus	ST
Principal Preservation–Tax-Ex Plus	MU

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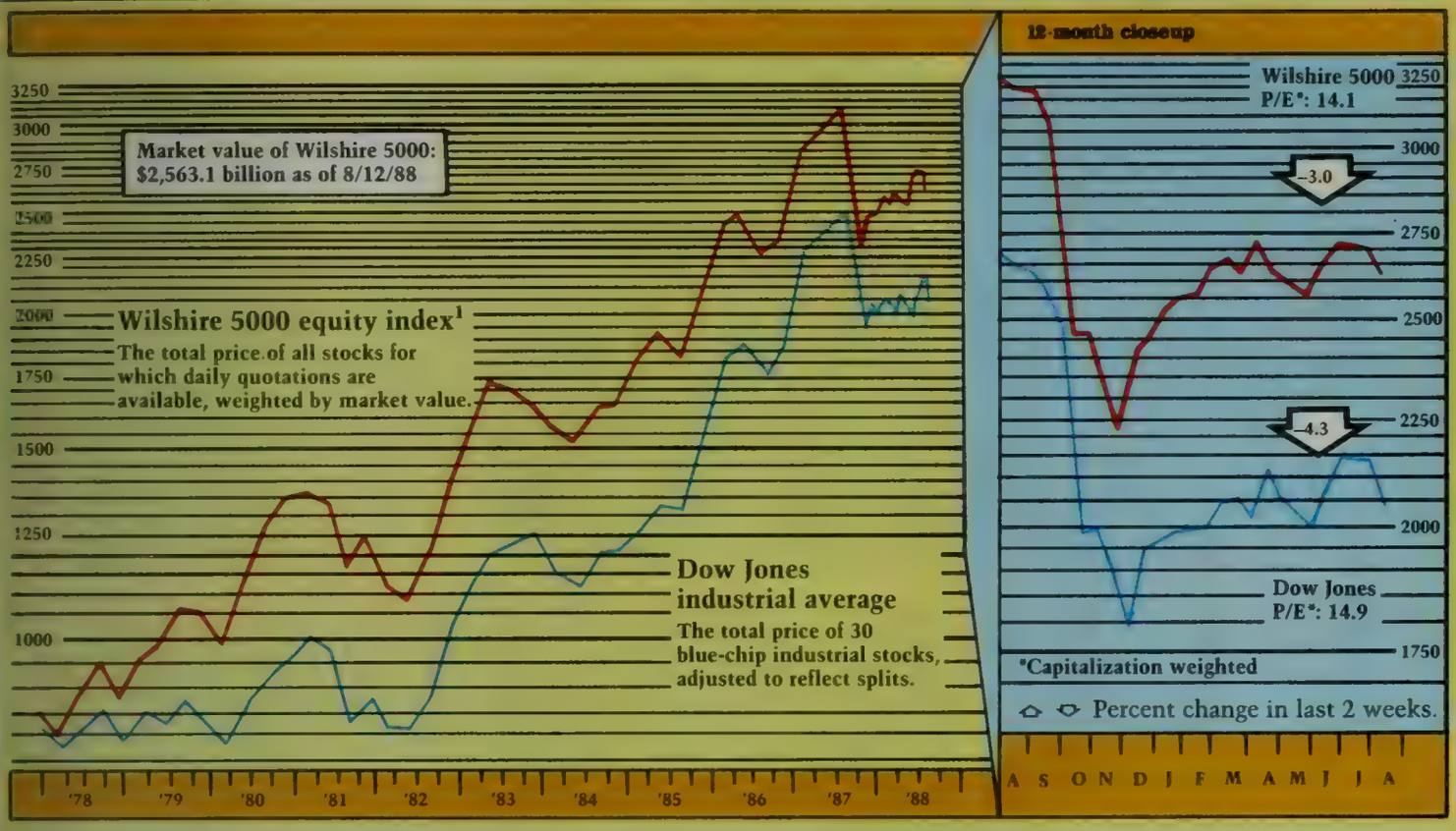
The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Is this a market to nowhere? Almost six weeks ago the market hit a postcrash high. But during the most recent week of trading the Dow slipped 82 points, leaving this barometer of market activity right back where it was on Jan. 6. Since last October the market has been unable to sustain a move far past the 2100 mark. The latest decline appears to have been precipitated by fears of inflation. Although higher rates had been anticipated by many investors, the market seemed surprised last week when the discount rate and the prime were raised.

After last October it is not surprising that many investors are reluctant to return to the stock market. There are, however, a few bright spots. Each postcrash rally attempt has peaked at a slightly higher level than the previous uptick. And with the Wilshire index declining 3% in the last two weeks, the price-to-earnings multiple on the market is down to 14.1. Stocks are not cheap, but they are getting less expensive.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–3.5	–3.2	–4.3	–3.3	–4.1	–4.0
in last 52 weeks	–20.0	–21.2	–24.1	–20.4	–18.5	–16.1

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 23	under 9	over 4.7%	none	high	low	over $35	under $4
in last 4 weeks	–3.7	–1.0	–2.3	0.4	–3.5	–1.5	–0.2	–1.3	–1.8	–1.8	–3.3	–1.3
in last 52 weeks	–16.2	14.7	15.2	2.0	–9.8	–3.9	–2.4	17.5	14.1	–2.2	–11.4	9.0

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

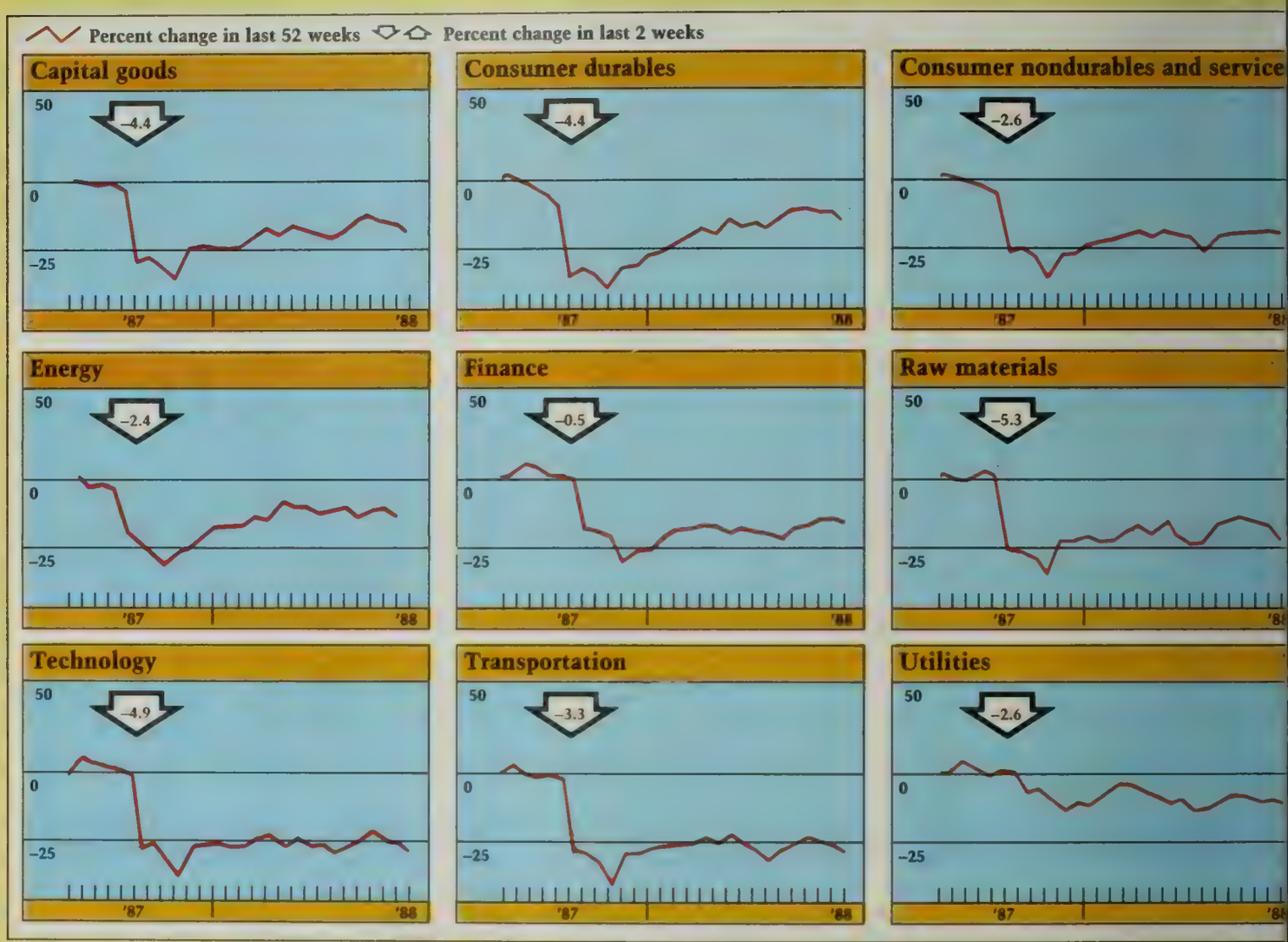
Note: All data for periods ending 8/12/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Exceptions to the rule. While the overall market, as measured by the Wilshire index, lost 3% in the last two weeks, the finance sector limited its loss to 0.5%. The group was buoyed by an 18.7% gain in NCNB, which has been assigned by the FDIC to assume control of First RepublicBank. Farmers Group, which has been locked in a takeover battle with U.K's B.A.T Industries, rose over 16% on a higher offer from B.A.T. Primerica and Provident Life & Accident also posted double-digit gains.

Other standout performers in a generally down market include Quaker Oats, which was up 16.6%; Perkin Elmer, which gained 8.3%; and Maytag, which rose 7%.



What the Analysts Think

Bullish earnings estimates continue to pour out of Wall Street research houses. In the last two weeks security analysts raised their 1988 forecasts for six of nine sectors. The raw materials group posted the best gain, an increase of 2%. The estimated 1988 price-to-earnings multiple is now 9.6 for this group, vs. 10.4 for the Forbes Sales 500.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
[illegible]	$2.78	13.4
1988 [illegible]	3.59	10.4
1987 [illegible]	3.95	9.4

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimat in 2 weeks	% change in 1988 estimat in 4 weeks
1	Raw materials	$3.15	9.6	2.00%	3.29%
2	Consumer durables	4.55	12.0	1.49	2.31
3	Transportation	2.37	10.8	0.78	0.27
4	Energy	3.04	12.3	0.54	0.62
5	Capital goods	2.62	14.5	0.48	1.63
6	Technology	2.84	11.5	0.08	0.02
7	Utilities	2.40	9.7	–0.07	0.08
8	Consumer nondurables	2.47	12.9	–0.26	–0.78
9	Finance	3.48	8.3	–0.40	–0.70

Earnings projections [illegible] weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Broke Estimate System [illegible] Lynch, Jones & Ryan, a New York-based brokerage firm

Note: All data [illegible] Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

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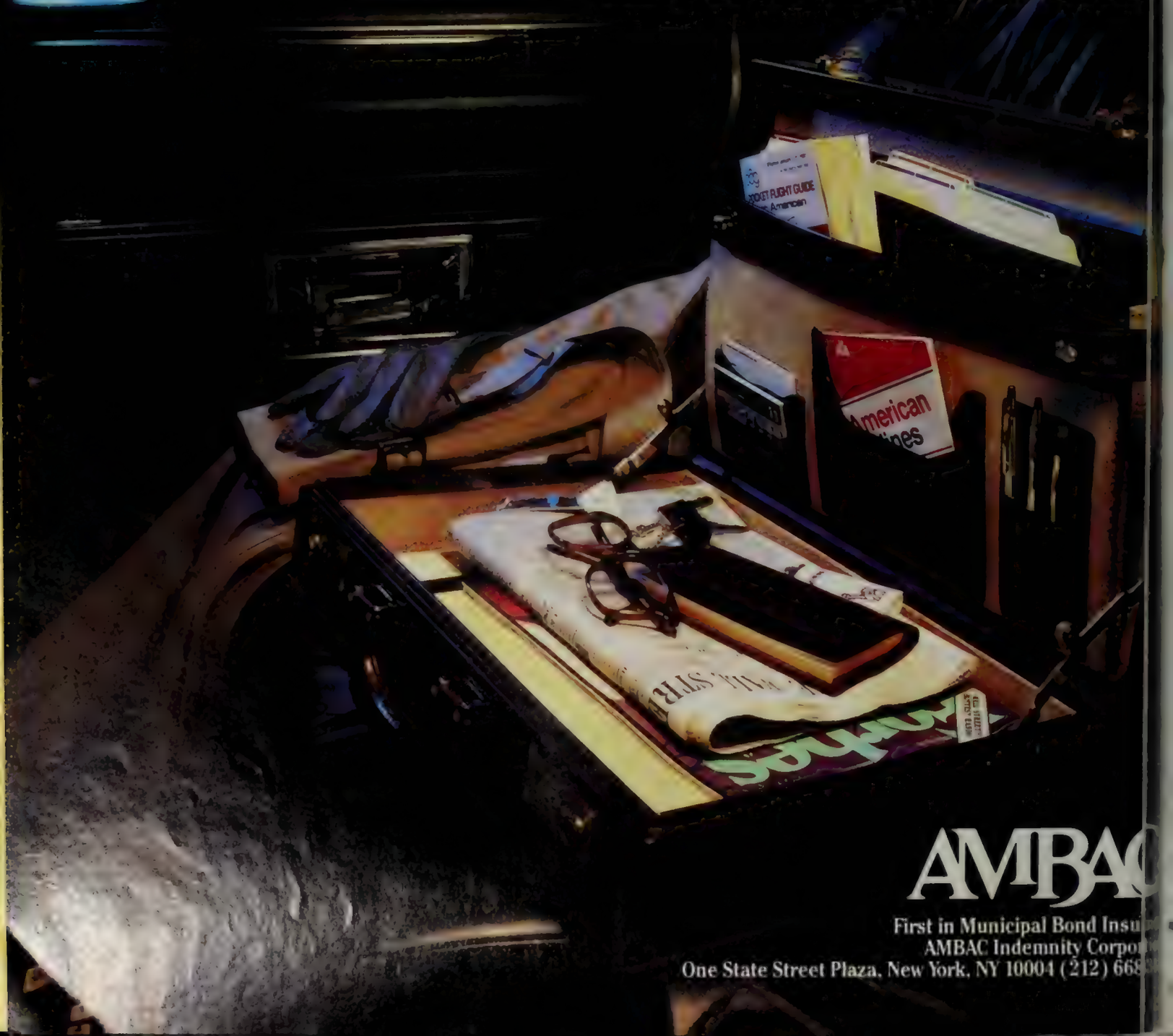

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There is no longer such a thing as a predictable rate of return in bonds. Today we are all speculators.

NO PLACE TO HIDE

By Ben Weberman

Not all government bond funds are alike. The raw material they start with is the same: Treasury and other federal paper, and government-guaranteed securities like Ginnie Maes. But the bottom line is no longer determined by the interest rate but by the total return—interest plus or minus changes in the market value of the bonds.

The risk is a function of the maturity of the portfolio: The longest maturities are the riskiest. When the Fed raises the discount rate and the bond market panics, as it did in early August, holders of the longest-maturity Treasurys get hurt the worst. On the other hand, when rates fall, holders of the long bonds do the best. The arithmetic is pretty startling: A one-percentage-point change in market interest rates would bring a shift of 0.9% in the price of a 1-year debt issue, about 6.5% in a 10-year note or about 10% on a 30-year bond.

The next difference is in yields. Long Treasurys pay about 9.5%, but there are ways to enhance the current payout—for example, by writing call options against the portfolio. If the bonds subsequently increase in value, they will be called, but you will pocket the call premium in addition to the interest accrued while you were holding.

If, on the other hand, you want to gamble on market action and to hell with yield, buy a portfolio of Treasury strips (zero coupons) with no current yield at all.

The two above procedures are extremes. I don't recommend them to most investors. But I do urge investors to pay attention to both sides of the coin: price action and yield. A lot of people instinctively reach for current yield. My advice: Don't. Your objective as an investor ought to be total return. Total return is interest income plus or minus the change in market value.

Current yield is an illusory benefit. It does no good to get a 10% yield and then lose 11% of your principal. Then your total return would be minus 1%. You might ignore the principal loss and contentedly cash your income checks, but if you keep that up for long you will lose much of your capital. Think of the poor folks who bought 2½% Treasury bonds in the 1950s and held them to maturity. Thinking they had found safety, they instead lost most of their purchasing power.

How do you manage to get a total return higher than the face yield with bonds? Through timing. The best fund manager will be invested heavily in short-term maturities when interest rates are rising, thus minimizing the potential for market loss. On the other hand, before interest rates begin falling, the smart manager will have lengthened maturities to maximize the capital gain.

Timing well is easier said than done, but markets are so volatile these days that no one can count on current yield alone. There is no longer such a thing as conservative investing for a modest return. This is true of bond funds as well as everything else.

Total return bond funds are fairly new to an industry that until recently was going all out to sell on current yield. In the FORBES funds database there are but five bond funds that use "Total Return" or "Total Income" in their names, and none are large enough and old enough to appear in the bond tables that begin on page 218. Others, of course, refer to the concept in their literature but don't push it as hard.

Richard Fisher is president of Federated Securities, which distributes the Fortress Total Performance U.S. Treasury Fund. His fund plans to play the bond market for all it's worth—to shift maturities aggressively as it senses change in the market. He'll be trying to get return both through trading and through clipping coupons.

Fisher is bullish, for the long term. That is, he thinks the general trend of interest rates is down, despite the runup following the Federal Reserve's interest-rate hike on Aug. 9. "Investments made now will benefit in 1990 to 1993 from lower interest rates," he says. "History is clear. These cycles are very long, starting in 1869. The period 1946 to 1981 saw a volatile upswing with interest rates climbing from 2.5% to a high of 16%. Now that market rates have started another 20-to-25-year long-term down cycle, the movement will continue for an extended period."

In other words, Fisher thinks investors will be able to earn well over current yields by buying and holding long-term bonds. But he expects periods within the cycle when the bond market will turn weak. When he thinks he sees that coming, he intends to shift the fund's average maturity to 2 years to 2½ years from a more usual 10-year to 12-year life. To try to maximize total return, he will vary the components of the bond portfolio.

The trouble with total return, of course, is that you can't predict it. Not even experts like Fisher can foresee the future. So face the fact: Bonds, whether purchased through a fund or bought direct, no longer offer a firm and predictable rate of return. Today, whether we want to be or not, we are all speculators. ■

Ben Weberman is a contributing editor of FORBES magazine.

The recent discount rate increase may not be the last one. There are lots of good reasons for not owning stocks right now.

TOO LITTLE, TOO LATE

By Kenneth L. Fisher

"We are ripe for a discount rate hike." That was the opening line of the column I submitted for this issue shortly before the Fed's Aug. 9 boost. Events got ahead of me and I rewrote the column. But its basic point remains: Interest rates are going higher. We are ripe for at least one more discount rate increase, despite the Fed's recent ratchet.

Why? The Fed's boost wasn't big enough. It raised the discount rate one-half point, but a full point was needed to close the arbitrage possibilities that exist for banks to borrow from the Fed and then lend the bucks back out at higher market rates. The arbitrage spread is smaller now—one-half point or so—but that's plenty to keep the game going and to force the Fed into another rate ratchet, at least.

And that's scary, because multiple discount rate increases often foretell liquidity crises—which could make the market's recent knee-jerk reaction seem like child's play. When the Fed has raised the fee it charges to lend reserves two or three times in succession—without a cut in between—it has been doubly damning for stocks.

Kenneth L. Fisher is a Woodside (Calif.)-based money manager. He has written two books, The Wall Street Waltz *and* Super Stocks.

It was only in those extraordinary late 1950s and early 1960s that multiple rate hikes didn't correctly warn of disaster. More frequently they have—as in 1921, 1929, 1947, 1972, 1981 and many smaller debacles enroute. Usually, repeated discount rate hikes have preceded savage bear market maulings.

As a refresher, recall the primary purpose of the discount window: a vehicle to lend funds to troubled banks that are short on legally required reserves, but which hope to be healthy again soon. So the Fed likes to keep the discount rate relatively low—hence the term discount—because those troubled banks can't afford high rates.

But at times like these, with short-term interest rates far above the discount rate, and rising, the discount window begins to look like a honey pot to healthy banks, too. If they can borrow bucks from Uncle Fed at low discount rates and, in turn, lend those dollars out at higher market rates, they can pocket the spread at absolutely no risk.

Right now, for example, they could borrow at the 6.5% discount rate and with the proceeds buy riskless short-term 7% U.S. Treasury bills and make a ½% annualized profit. The regulators would never figure out the difference. At only negligible risk they could pick up an extra ½-point-plus on top of that by lending into the A1P1 commercial paper market. That's 1%-plus at almost no risk. Not too shabby, huh?

I would borrow every dollar I could that way. So would they. With so many banks posing as crippled beggars, the Fed can't tell the real cripples from the fakes. Finally, the Fed has no choice but to raise the discount rate. But in so doing, it risks a liquidity squeeze by making reserves more scarce. The banking system now scrambles to pull in loans to build reserves, which ripples out through all near-liquid assets—including, and especially, stocks. The tightening of mid-August was modest enough, but it does rein in some lending and investing.

In my mind, the only thing that will prevent another discount rate hike would be naturally falling interest rates. And that seems unlikely with interest rates rising worldwide. If the current spread between the discount rate and other short-term rates remains for even another month, count on another hike.

Usually, this chickenhearted approach of raising discount rates, but not enough, has eventually required more and bigger hikes. Painful examples of this too-little, too-late approach include 1929, 1955-56 and 1967-68. At times, back-to-back rate ratchets have rippled faster than you can say, "Greenspan is gagging." By my count, 1973 saw seven boosts. Remember 1974?

So, until the liquidity picture clears, I am reluctant to put further funds in stocks. There may well be a snap-back rally in the next few weeks as the hysteria over the Fed's feeble action passes, but I would use such a rally to seek liquidity.

Some folks insist stocks must do well because of the elections and political self-dealing. Not so. As Yale Hirsch details in his nifty and educational annual appointment calendar, *The Stock Trader's Almanac*, stocks have historically averaged downward starting about September in election years in which the incumbent party loses. With Dukakis ahead in the polls, this is something to think about. (Hirsch's *Stock Trader's Almanac* for 1989 costs $25.50 from Six Deer Trail, Old Tappan, N.J. 07675-7124.)

Maybe I'm too cautious, but I am also reminded that September and October are often wretched. Skipping 1987's debacle, the decade before that saw only two September/October combos when stocks did well (1982 and 1986). The rest were break-even or, more often and worse, breaking down badly.

So I'm not recommending new stocks now. I'm holding those I suggested recently, and a lot of cash, and waiting for better monetary and interest rate conditions. If they don't come, better bargains will. ■

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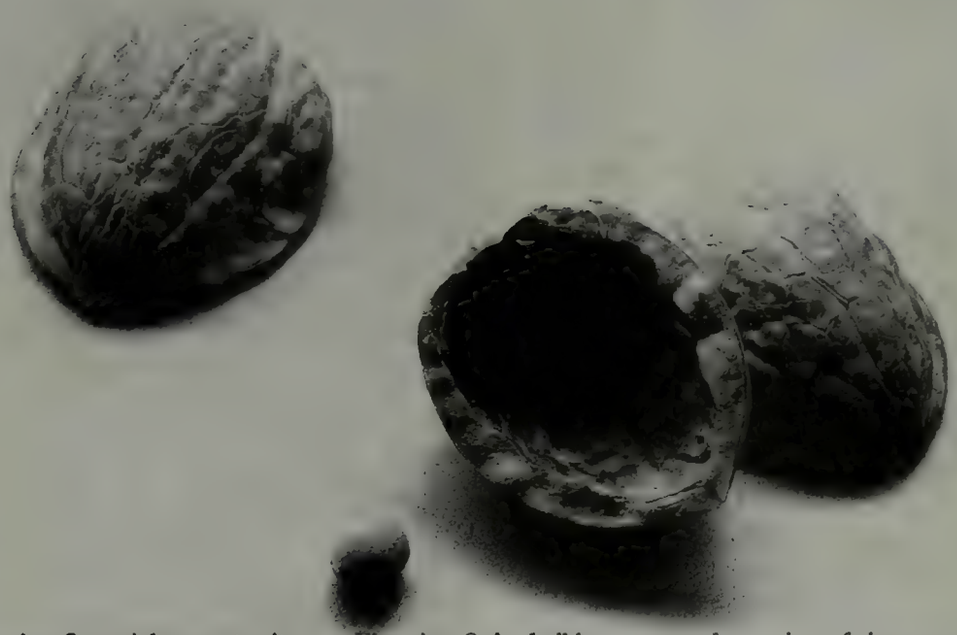

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CFB 9A-88

In raising interest rates, the Federal Reserve adds new strains to our already overextended financial system.

YOUR SAVINGS MAY NEED SAVING

By Ashby Bladen

The Fed's latest nudge upward of interest rates is going to add strains to our financial system. It increases the cost of money for financial institutions that are already in trouble and makes many shaky borrowers shakier still. The well-publicized troubles of the Texas banks and thrifts are only the most visible part of the iceberg. The same go-go virus that brought down First Republic-Bank has infected all but a few astutely and conservatively managed financial institutions, and for years the losses will keep oozing to the surface and eroding confidence in our whole financial system.

The U.S. financial system is now so overextended that we cannot afford another economic downturn, because the next one will be a depression. We can fend it off only by continuing to throw good money after bad. Private financial institutions can do that with government assistance as long as confidence in them lasts. But events will make it steadily more clear that many of them do not deserve our confidence.

As people's confidence in the private financial sector wanes, the government will have to substitute its credit for that of private institutions, so before the century is out we will see an effective nationalization of much of the banking and thrift industries. And that, as the experience of many Third World countries shows, is the recipe for runaway inflation.

The fundamental problem is that we have increasingly entrusted to institutions the responsibilities that, by the nature of things, only individual people can bear. Organizations are necessary to coordinate the activities of large numbers of people and to perform long-term tasks like writing life insurance because they can be immortal, while individual people cannot. But an organization is only as responsible as the people who run it.

Our current system of relying on governmental organizations to hold private ones to responsible standards does not work very well, because the regulators do not have a personal and vital interest in the results. Only the people who own an organization can force it to be responsible. If managements are irresponsible, it is because their owners let them get away with it.

As individuals, people can make mistakes only about their own institutions. They cannot make the systematic and system-destroying mistakes that politicians and regulators make. There have always been bank failures, but the losses were never what they will be under the current system of regulation and deposit insurance. And because life insurance is regulated by the several states rather than the federal government, the failsafe mechanisms are rickety and unreliable. They can handle the odd small failure, but they are not up to the trouble that looms ahead. You need to be much more careful about choosing a life insurance company than a federally insured bank.

I became a life insurance investment manager because I believe that the first and best investment for most people's savings is a dividend-paying whole life policy with a well-managed mutual life insurance company. So, during the 1970s, when I was chief investment officer of the Guardian Life Insurance Co., I begged the industry bigwigs to push for noninflationary national policies because serious inflation would make our traditional products poor investments. They listened approvingly, but because they shy away from political hassles, they decided not to try changing the world but instead to try living with inflation. They did so by emphasizing products like guaranteed interest contracts, which do nothing for their whole life policyholders, but which they hoped could coexist with inflation.

By now only a handful of companies, those whose investment officers continued to focus on doing a good job for their long-term policyholders, still have attractive whole life policies. The policyholders of the other mutual companies didn't object to the subordination of their interests to those of the management and staff because they didn't pay enough attention to know what was going on.

Among the companies that still sell attractive whole life policies, the Northwestern Mutual and the Massachusetts Mutual appear to have fewer serious investment problems than most. But the only company I know well enough to recommend unreservedly is the Guardian. Its directors are non-go-go types who hold management to the highest standard of responsibility—a standard that management finds congenial. Its key investment officers are very much aware that they are responsible for the most important savings of several thousand people. They produce a superior investment return by astuteness rather than by risk-taking.

But in all it's a bleak picture. America's quarter-century borrowing-and-spending spree has led most lending institutions to make lots and lots of bad loans, and with the Fed pushing interest rates higher, the bad loans will get worse. ■

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis.

The presidential election year cycle says stocks should rally through the end of 1988. The top performers disagree.

THE BEARISH BEST

By Mark Hulbert

Will the "presidential election year cycle" prevail this year and next? Not this time, according to the consensus of those investment newsletter editors/advisers who have profited the most since 1980. Instead of rallying strongly through the remainder of this year and then selling off in 1989, as the cycle predicts, the best performers suggest a serious decline may begin soon.

Since the election year cycle didn't work in 1984, either, this could drive the nail into the coffin of this previously popular theory. Not surprisingly, therefore, the cycle has nothing like as many newsletter adherents as in 1984. And this year the market has been acting true to the cycle's form, up more than 10% through August. So a contrarian might explain away the 1984-85 experience as an aberration and expect it to have more predictive prowess this time around.

Don't be too quick to take the contrarian argument. Bearishness among the best-performing investment advisers is rapidly increasing—and the record shows clearly that the best letters tend to be right.

Mark Hulbert is editor of the Washington, D.C.-based Hulbert Financial Digest *and author of* The Second Hulbert Financial Digest Almanac, *published by Minerva Books.*

Of the top six newsletters my *Hulbert Financial Digest* shows have outperformed the market for the last eight years, three have become significantly more bearish on the market's intermediate to long-term trends in the past few weeks. Overall, the consensus calls for caution.

The *Zweig Forecast,* edited by Martin Zweig, is the top eight-year performer. Zweig has turned quite cautious over the past few weeks. In contrast to early June, for example, when Zweig's intermediate-term model was in a bullish-to-very-bullish mode, it has now deteriorated to a bearish stance. And his "super model," as outlined in his book *Winning on Wall Street* (Warner, $20) is on a sell. He believes we are in a bear market, and his recommended exposure to stocks is just 20%, down from 82% earlier this year.

In second place in the *HFD*'s eight-year rankings is the *Value Line Investment Survey,* published by Arnold Bernhard & Co. It also has turned more bearish of late, recommending in late July that subscribers build up a 20% cash reserve. This is the first time since 1983 that it has recommended that subscribers be less than 100% committed to highly rated stocks. In contrast to the beginning of this year, when it would have rated the stock market a "1" on its "1 [best] to 5 [worst]" rating scale, *Value Line* now rates the stock market no better than a "low 3"—or below average.

Market Logic, published by Norman Fosback and Glen Parker, has also become more pessimistic. True, this newsletter has been making bearish long-term noises for several years now; but it's also true that it had become quite bullish on the market's intermediate trend last December, at which time it moved back to a fully invested position.

Right now a subscriber to *Market Logic* must wonder whether a decision to build up a cash reserve can be far away. Though Fosback and Parker continue to recommend a fully invested position in anticipation of a 23% increase in the S&P 500 through the end of this year, their models are projecting a severe bear market, beginning after that. As of late July, in fact, their models were projecting that the S&P 500 would decline some 16% over the 18 months beginning in 1989 and be no higher in mid-1993 than where it will be at the end of this year.

What about the other three newsletters among the top six? One, Charles Allmon's *Growth Stock Outlook,* remains as aggressively bearish today as at any time over the last three years, with a recommended cash position in excess of 80%. The last two are more optimistic. But even here stock market bulls will be able to find little comfort.

One is the *Prudent Speculator,* edited by Al Frank, and it is not clear how much weight should be placed on Frank's market timing. While he claims that he will not always remain as heavily margined as he is currently, the fact of the matter is that he has been for most of the last ten years—including during last October's crash *(see my Dec. 14, 1987 column).* Moreover, for investors worried about the prospects for a bear market later this year or next, Frank calmly recommends taking a longer-term—three to five years—perspective. In other words, his heavily margined posture is not incompatible with the decline anticipated by some of the bears.

The other bullish letter among the top six is Richard Fabian's *Telephone Switch Newsletter,* which mechanically generates buy and sell signals depending on whether the market is trading above or below its 39-week moving average. Though in mid-August Fabian's model remained on its early June buy signal, it was in an alert mode—a sell would be generated if and when the market drops by as little as 5% from its mid-August level.

If, then, the sentiment among the best-performing letters has predictive value, the outlook is bearish. It looks like the "presidential election cycle" isn't going to roll in 1988 any more than it did in 1984. ■

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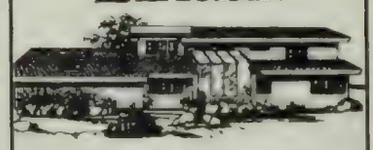

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Streetwalker

Edited by Thomas Jaffe

He sees ICI

Imperial Chemical Industries Plc.'s shares sell at a 30% discount to the U.K. market. Its American Depositary Receipts trade at a 40% discount to the S&P 400. Too cheap, says Andrew Cash, of Oppenheimer & Co. He notes the ADRs of $21.5 billion (estimated 1988 sales) ICI—the world's fifth-largest chemical company and one of the 20 largest drugmakers—recently sold for 71¼ on the NYSE, up just 7% from their 12-month low.

Why so cheap? After all, ICI continues to benefit from tight supply/demand in such basic chemicals as caustic soda and chlorine, as well as in petrochemicals and plastics such as polypropylene and terephthalate acid. But the perception is that ICI's growth has peaked.

This may be a misperception. ICI is changing. In 1979 commodity products accounted for nearly 80% of profits; now they're less than 40%. Analyst Cash expects higher prices, especially on value-added products, to drive near-term earnings growth. For example, there's the drug business, with its 28% pretax margin. This generates 25% of profits; and once production starts in Puerto Rico, where ICI will reap handsome tax benefits, margins should widen further.

Cash isn't unaware of ICI's problems. In the European fiber market, dumping from Third World suppliers has hurt. In fertilizers, Eastern bloc producers sell at distressed prices, and the weak dollar has made U.S. producers more competitive.

But he isn't deterred. There are 169 million ADRs outstanding, each representing 4 underlying ICI shares. Excluding a 45-cent-per-ADR charge from restructuring the fertilizer business, Cash thinks ICI will earn $8.95 per ADR this year, up 19%, and looks for a 14% gain in 1989, to $10.25 per ADR. He thinks the stock, at just seven times next year's anticipated earnings, is dirt cheap.

Sweet stock

If you're still looking to play the drought, Kenneth Smith, of Atlanta's Johnson Lane Space Smith & Co., suggests Savannah Foods & Industries, Inc. With 198[illegible] sales of $886 million, it is considered the largest U.S. sugar producer. The Savannah-based company does its refining and marketing principally in the Southeast and Midwest. Its output is sold under the Dixie Crystals, Evercane, Pioneer and Colonial brands.

Roughly 85% of Savannah's volume is from cane refining, the balance from sugar beet operations. And there's the rub. Government price supports have created a sugar beet surplus. This has helped refiners that depend mainly on beets and hurt those

Savannah sugar at the warehouse
Those who cane, do.

that depend mainly on refining sugarcane. Although Savannah has long been the industry's lowest-cost producer, its profits have been squeezed in recent years. Pre-LIFO operating margins, 9.8% in 1980, were only 2.9% last year.

But the drought, says Smith, will power an earnings recovery by reducing the sugar beet crop and pushing up beet prices. Recent forecasts estimate a 13% drop in the sugar beet crop in 1988. In anticipation, Savannah has instituted substantial price increases, which should flow into earnings later this year. Smith estimates the company will earn $2.10 a share in 1988, about the same as last year, and he expects $3 a share next year.

Things look sweet beyond 1989, too. The low dollar has stimulated foreign demand for U.S. agricultural products; this affords sugar beet farmers the opportunity to grow alternative crops and puts more sugar beet out of production.

Smith believes that Savannah's normalized earnings power is about $4 a share. (There are 6.7 million shares outstanding.) The stock is up 17% since Memorial Day—to a recent 29¾, o-t-c—but considering Savannah's potential long-term leverage, he thinks it's still a delicious buy.

Target bank?

Oct. 10, says analyst William McGinnis Jr. of the Milwaukee Co., is the date after which Michigan's banking law will permit nationwide acquisitions on a reciprocal basis. This should lead to takeover action in the state, and he thinks one attractive target will be Farmington Hills-based Michigan National Corp. (assets, $8.7 billion). Michigan National Bank, its main subsidiary, has offices throughout southern Michigan and operates the state's largest automated teller machine network.

Michigan National has put its significant Penn Square-related problems behind it, and, more recently, has sold its entire $28.8 million Third World loan portfolio. Meanwhile, net interest margins have risen over the past few years, problem loans have declined and assets have grown at a 7% to 8% pace.

McGinnis estimates earnings will increase 24% in 1988, to $6 a share. Book value is $35.33 a share, and the stock recently sold o-t-c at 46. But McGinnis thinks Michigan National could be worth $72 to $84 per share in an acquisition. The employee stock ownership and bonus plans own about 23% of the 15.4 million shares.

Still up in Michigan

Speaking of Michigan, another bank holding company B McGinnis likes is $2.4 billion (assets) Citizens Banking Corp., headquartered in Flint. Its main franchise is Citizens Commercial & Savings Bank, that city's leading financial institution. Although Flint is highly dependent on the automotive market, McGinnis thinks concern about the market's health is overdone. In July General Motors agreed to sell its closed Buick-Oldsmobile-Cadillac body assembly plant to Detroit developers who intend to convert it into offices, light industrial manufacturing space, shops and restaurants—in a part of the Midwest's revival. GM will also lease back some of the space.

or its engineering operations.

What's more, over the last few years Citizens has made acquisitions, so the Flint market now accounts for less than 50% of net income. Last year, for instance, it bought the Commercial National Bank of Berwyn, in a Chicago suburb.

McGinnis estimates Citizens will earn $2.50 a share this year, and is looking for $2.70 in 1989. Recent o-t-c price: 23½. There are 6.7 million shares outstanding; officers and directors own about 11%.

Back to form?

Analyst David Henwood of St. Petersburg's Raymond, James & Associates detects a turnaround at Reynolds & Reynolds Co., the $600 million (estimated 1988 sales) supplier of business forms and systems to auto dealers. Dayton-based Reynolds earned $2.44 a share in fiscal 1986. But then price-cutting in business forms, rising paper costs, trouble assimilating Arnold Corp. (a business forms manufacturer acquired for $110 million in May 1986) and problems in computer systems (41% of sales) all combined to torpedo profits. For the fiscal year ending Sept. 30, Henwood estimates Reynolds will earn just 89 cents a share from continuing operations. While the stock—recently 19½, o-t-c—is up over 40% from its post-crash low, it still sells for about half the 39¼ it reached in early 1987.

But Henwood sees some favorable straws in the wind. This year Reynolds has eliminated more than $13 million in labor costs—equal to about 15 cents a share after taxes—that should be realized in fiscal 1989. It also has sold its computer systems division's moneylosing direct marketing and tax businesses. In the June quarter it took inventory writedowns and reserves on obsolete equipment.

Meanwhile, the company has been streamlining Arnold, which produces continuous and snap-out custom and computer stock forms as well as tickets. Orders are improving for Reynolds' ERA computer system, a fully integrated turnkey database system for auto dealers that comes with a full line of software applications.

For the fiscal year beginning in two months, Henwood's looking for at least $2 a share in earnings. There are nearly 10.5 million Class A shares. Another 8.7 million Class B shares are owned entirely by members of the founding Grant family and represent 65% of the voting stock.

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ConSern: Loans for Education

Forbes Index

INDEX OF COMPANIES COVERED IN NEWS STORIES AND BY THE COLUMNISTS IN THIS ISSUE. EACH REFERENCE IS TO THE FIRST PAGE OF THE STORY IN WHICH THE COMPANY NAME APPEARS.

Abbott Laboratories ... 110, 111
Adler & Shaykin ... 138
Advertising Age ... 19
Agritech ... 42
Alaska Air Group (Alaska Airlines) ... 110
Alliance funds ... 128, 168
Allied Bancshares ... 287
American Umbrella ... 114
AMR (American Airlines) ... 110
Anac Holding (Revco D.S.) ... 138
Antonovich ... 37
Apollo Computer ... 128
Apple Computer ... 105, 128
Ardshiel ... 80
Ameson Marine ... 104
Ashland Oil ... 80
AT&T ... 84, 105
Autodesk ... 128
B.A.T Industries ... 272
Baloise ... 90
Bank J. Vontobel ... 90
Bank of America ... 12
Bassak ... 56
Bear, Stearns ... 8, 68
Arnold Bernhard ... 279
Arnold Bernhard (Value Line) ... 126
Beta-Taurus ... 38
Beverly Hills Savings & Loan ... 90
BMW ... 74
Boeing ... 110
Borden ... 64
Boschert ... 105
Bridgeport Hilton ... 82
British Petroleum ... 162
Burmah Oil ... 80
Burnup & Sims ... 12
Burson Marsteller ... 121
Business Flyer ... 110
BWAB ... 84
California Technology Stock Letter ... 134
Campbell ... 130
Campbell Automotive Group ... 36
Canal Plus ... 38
Cantobank ... 90
Capital Cities/ABC ... 34, 68
Car and Driver ... 74
Cargill ... 42
Carlton Communications ... 38
Caterpillar ... 104
CBS ... 34
CDA Investment Technologies ... 166
Center for Family Business ... 114
Central Television ... 38
Don Charles (Sunshine Futures) ... 130
Choice Courier ... 121
Chronicle Books ... 19
Chrysler ... 6, 74, 110, 120
Citicorp ... 72
Citizens Banking ... 282
Citytrust Bancorp ... 82
Claremont Capital ... 168
Coldwell Banker ... 84
Colonial Group ... 140
Columbia Pictures Entertainment ... 38
Compaq Computer ... 128, 147
Computer Memories ... 68
ConAgra ... 42
Contemporary Products ... 114
Continental Cablevision ... 34
Continental funds ... 148
Continental Illinois ... 25
Coopers & Lybrand ... 106
Corvus Systems ... 105
Crédit Lyonnais ... 12, 38
Dai-Tokyo Fire & Marine ... 163
Daimler-Benz ... 74
De Laurentiis Entertainment Group ... 68
Delta Air Lines ... 110
Detroit Diesel ... 104
DIC Enterprises ... 68
Digital Equipment ... 105, 128
Dimensional Fund Advisers ... 163
Walt Disney ... 34
Dodge & Cox ... 168
Dow Jones *(Wall Street Journal)* ... 6
Drexel Burnham Lambert ... 6, 34, 37, 42
Drug Delivery Systems ... 111
Dun & Bradstreet
(Moody's Investors Service) ... 60
DWG ... 12
Edmar ... 114
A.G. Edwards & Sons ... 39
Eichhof ... 90
Eli Lilly ... 111
Equitable Life Assurance ... 37
Equitable Life Assurance
(Donaldson, Lufkin & Jenrette) ... 34
Equus Investments ... 138
Evans ... 37
Evans Products ... 88
Exxon ... 128
Farmers Group ... 272
Federated Securities ... 275
Fidelity funds ... 124, 168
Filmation ... 68
First International Bancshares ... 287
First RepublicBank ... 8, 25, 272, 278
Florsheim Shoes ... 72
Ford Motor ... 6, 74, 124, 128, 287
Franklin Holding ... 138
Frequent Flyer Club ... 110
L.H. Friend ... 37
Fries Entertainment ... 68
Fuji Fire & Marine ... 163
Fur Vault ... 37
Gabelli Equity Trust ... 147
Gateway Option Index Fund ... 140
GE ... 34
GE (NBC) ... 105
GE (RCA) ... 121
General Dynamics ... 110
General Motors ... 74, 110, 158, 166, 282
Gibson Greetings ... 138
Goldman, Sachs ... 138
Government National Mortgage
Association ... 275
Grand Metropolitan ... 120
Great Universal Stores ... 162
Greyhound ... 6
Growth Stock Outlook ... 27
Guardian Life Insurance Co
of America ... 27
Guardian Park Avenue ... 16
Gulf & Western ... 34, 12
Général d'Image ... 3
Hanna-Barbera ... 6
Hartwell's Emerging Growth Fund ... 13
Heine Securities (Mutual Shares) ... 13
Henley Group ... 5
Henley Manufacturing ... 5
Hewlett-Packard ... 12
Hilton Hotels ... 10
Hitachi ... 2
Hoechst Celanese (Hoechst-Roussel) ... 11
Holzstoff Holding ... 9
Honda ... 22, 7
Honeywell ... 12
Hornets (Charlotte, N.C.) ...
Hudson Bay ...
Huerlimann ... 9
Hughes Aircraft ... 1
Hulbert Financial Digest ... 134, 2
Hutchinson, Fox ... 14
IBM ... 8, 105, 128, 158, 16
IBP ...
ICI Americas ... 1
IDS New Dimensions ... 16
Imperial Chemical Industries ... 28
Inco ...
Industrial Audio/Film Services ... 1
Integrated Device Technology ... 1
Intel ... 1
Investment Limited Partnership ...
Investors Overseas Services ... 9
Itel ... 56, 16
Ito-Yokado ... 16
ITT ... 1
Jiffy Lube ...
Jindo ...
Johnson & Johnson ... 16
Johnson Lane Space Smith ... 2
K mart ... 16
Ben Kahn Furs ...
KaMeWa ... 16
Kemper ...
Kemper funds ... 126, 1
Koa Fire & Marine ... 1
Laurel Entertainment ...
Legg, Mason ...
Lehman Capital ... 1
Lex Service ...
Life ...
Limited Term Municipal Fund ... 1
Lipper Analytical Services ... 140, 1
Locksmith Ledger ...
London Weekend Television ...
Long Island Lighting ...
Loomis-Sayles Capital
Development Fund ... 1
Lorimar-Telepictures ...
Los Angeles Times ...
LSCO Securities ...

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.ycoming ... 104
Managed Account Reports ... 130
Market Logic ... 279
Marvel Productions ... 68
Maserati ... 36
Massachusetts Mutual Life Insurance ... 278
MassMutual Corporate Investors ... 138
Masstor Systems ... 8
Maytag ... 272
MCA ... 34, 38
McDonald's ... 15, 82
McGladrey & Pullen ... 147
McKeever Strategy Letter ... 134
McKinsey ... 72
Merck ... 111
Mercury Asset Management ... 162
Merrill Lynch ... 136, 138, 163, 166
MGM ... 6, 34
Michigan National ... 282
Microsoft ... 105, 106, 128
Mileage Managers ... 110
Milwaukee ... 282
Minnesota Mining & Manufacturing ... 64
Mitsubishi ... 36
Montgomery Securities ... 74
Morgan Stanley ... 166, 210
Motor Trend ... 74
MTM Entertainment ... 38
MTU of North America ... 104
Mutual Fund Letter ... 126
Muzak ... 101
National Farms ... 42
NCNB ... 8
New America ... 138
New England Growth ... 168
New York Times ... 6, 12, 121
New York Venture ... 168
News America (Twentieth Century Fox Film) ... 13
NHK ... 38
Nichido Fire & Marine ... 163
Nichii ... 163
Nightingale & Associates ... 88
Nissan ... 36
Noload Fund X ... 126
North American Holding (North American Commodity III) ... 130
Northwestern Mutual Life Insurance ... 278
Novell ... 105
NTC Group ... 72
NWA (Northwest Airlines) ... 110
Occidental Petroleum ... 42
Odyssey Partners ... 72
Oerlikon-Buehrle ... 90
Omni Holding ... 90
Oppenheimer ... 282
Orioles (Charlotte, N.C.) ... 12
Palmer Johnson ... 104
Pan Am ... 110
Panasonic ... 121
Parker Drilling ... 134
Peat Marwick Main ... 112
Penguin Books ... 112
Penn Square ... 282
Pennzoil ... 80
People ... 96
Perkin-Elmer ... 272
Pharmacia ... 111
Philip Morris (General Foods) ... 101
Primerica ... 272
Primerica (Smith Barney, Harris Upham) ... 60
Procter & Gamble ... 101
Progressive Grocer ... 64
Provident Life & Accident ... 272
Prudent Speculator ... 279
Prudential Insurance ... 12, 42, 68, 136, 138
PTL ... 12
Putnam Information Sciences ... 128
Putnam Vista Basic Value ... 168
Quaker Oats ... 272
Quaker State ... 80
Quest for Value ... 166
Raymond, James & Associates ... 283
Raytheon ... 110
Reader's Digest ... 64
Reese Communications ... 38, 121
Republic Airlines ... 110
Republic Pictures ... 38
Reteitalia ... 38
Reynolds & Reynolds ... 283
Rite Aid ... 101
Rolls-Royce ... 36
Runner's World ... 96
Rutledge Education System ... 12
Sail ... 96
San Diego Gas & Electric ... 136
Santa Fe Southern Pacific ... 56
Sanyo Electric ... 22
Sara Lee ... 88
Savannah Foods & Industries ... 282
SCEcorp ... 136
Schering-Plough ... 111
Schlumberger ... 134
Sci-Tech Holdings ... 128
Scudder ... 163
Seagate Technology ... 128
Sears, Roebuck ... 124
Sears, Roebuck (Cornerstone funds) ... 130
Sears, Roebuck (Dean Witter Reynolds) ... 136
Sequent Computer ... 128
Shape ... 96
Shearson Lehman Hutton ... 136, 230
Sigma Capital ... 168
Silicon Graphics ... 128
Six Deer Trail ... 276
Ski ... 96
Smith Barney, Harris Upham ... 36
Snap-on Tools ... 8
Sony ... 22, 38, 121
Southern ... 136
Southland (7-Eleven Japan) ... 163
Stein Roe ... 166
Sterling Drug (Glenbrook Laboratories) ... 101
Steven Motors ... 36
Stratus Computer ... 128
Sulzer Brothers ... 90
Sun Microsystems ... 128
Sunrise Auto Group ... 36
Suzuki ... 120
Swatch ... 96
Swiss Re ... 90
Symantec ... 106
System Industries ... 105
Takeda Chemical Industries ... 111
Tele-Communications ... 34, 168
Telephone Switch Newsletter ... 279
Television South ... 38
Tengelmann (A&P) ... 101
Texaco ... 80
Texas Air (Continental Airlines; Eastern Air Lines) ... 110
TF 1 ... 38
Thomson McKinnon ... 121
3Com ... 105
Time ... 96
Time Inc ... 34
Timex ... 96, 120
Toyota ... 36
Toys "R" Us ... 101
Trafford Park Estates ... 162
Trans World Airlines ... 110
Triangle Publications ... 13
Tucson Electric Power ... 136
Turner Broadcasting System ... 34
TV Guide ... 64
UAL ... 110
Unified Management ... 126
Unilever (Chesebrough-Pond's) ... 90
Unisys ... 128
United Artists Communications ... 34
United Banks of Colorado ... 84
US Trust ... 121
US West ... 84
USAir Group ... 110
Valvoline ... 64
Vanguard funds ... 124, 126, 134, 136, 140, 158, 166
Vestron Video ... 121
Video ... 17
S.G. Warburg ... 162
Warner Books ... 279
Warner Communications ... 34
WD-40 ... 64
Weintraub Entertainment Group ... 12
Wellington Management ... 138
Wells Fargo ... 56
West Point-Pepperell ... 72
Westinghouse ... 34
Westwood One ... 128
Winn Management (Sceptre fund) ... 130
Worlds of Wonder ... 88
Xerox ... 105, 126
Yugo ... 36, 120
Zale ... 12
Zenith Income ... 138
Zweig Forecast ... 279
Zweig Fund ... 147

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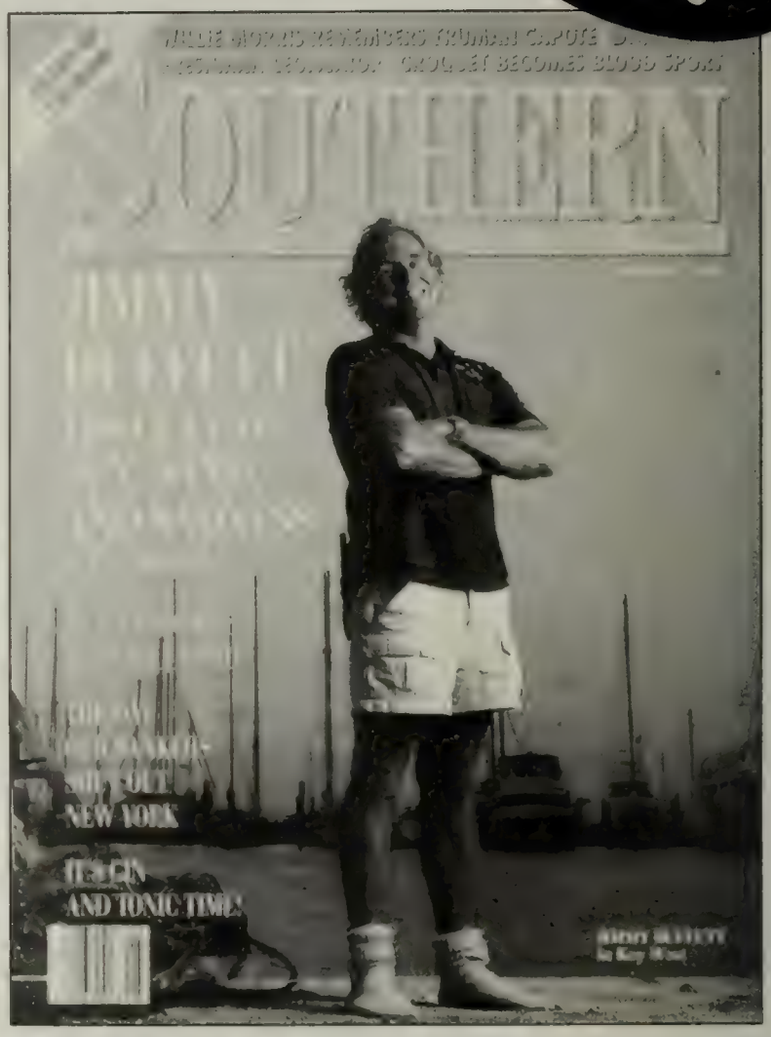

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Flashbacks

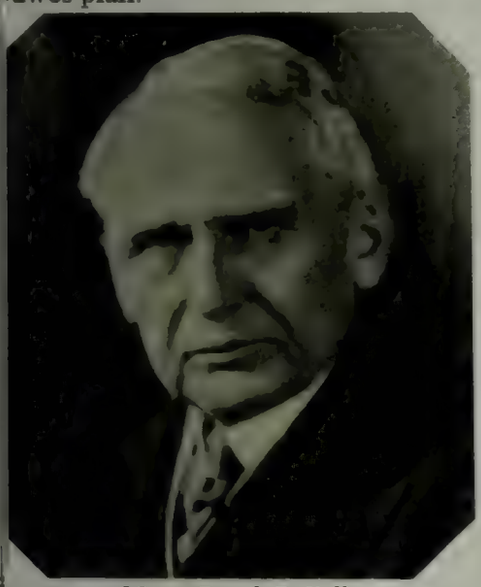
Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

;ixty years ago in FORBES

'rom the issue of September 1, 1928)

For almost a year businessmen ıroughout the world have been shak- ıg their heads and speaking gravely f an impending 'fifth year.' This 'fifth ear' is the one when [German] repa- ıtions payments attain the highest gure (2.5 billion marks), which ıereafter becomes the 'standard' an- uity to be paid by Germany for the xtinction of the total of 132 billion ıarks imposed [as reparations] by the)awes plan."



:cretary of State Frank B. Kellogg

On August 27 Secretary of State rank B. Kellogg will sign at Paris, on :half of the U.S., a multilateral trea- ı renouncing war as an instrument f policy. With him will sign the :presentatives of the 'Great owers'—Germany, France, Italy, reat Britain and Japan; of three naller European powers involved ı the Locarno Treaties—Czechoslo- ıkia, Poland and Belgium; and of ıe British Dominions. . . ."

ifty years ago

'rom the issue of September 1, 1938)

Dr. Simon Kuznets of the National ıreau of Economic Research esti- ıates that inventory losses in 1930 ere more than $4 billion, that inven- ıry profits in 1934 and 1935 totaled most $3 billion. In those last two :ars, inventory writeups accounted ır 63% of indicated total business 'ofits."

New welding techniques are applied to a huge oil refinery vessel

"There's no mystery about the reasons for welding's fast-growing adoption. Savings in dollars and time explain it. A manufacturer of metal furniture finds that he can save $30 a day on a single job by changing over to arc-welded construction. A maker of small machine parts cuts production costs 30%. A vegetable-peeling machine costs $28.70 to build; so arc-welding is adopted and the cost goes down to $12.64."

Twenty-five years ago

(From the issue of September 1, 1963)

"Those who collect anniversaries and such might like to be reminded that the date on this issue of FORBES roughly coincides with the tenth birthday of what we regard as the beginning of history's greatest bull market: September 1953. . . . On Sept. 14, 1953 the bull really took over. The summer decline of 1953 hit bottom at 255.49 on the DJI; by the end of 1953 the market had climbed, somewhat timidly, to be sure, to 280.90. Then the bull really showed its stuff. In March of 1954 the market galloped past 300, in November broke through the charmed 381 figure which had been the stock market's fatal peak 24 years earlier on Oct. 29, 1929.

"The bull market was only getting its wind. By year's end it was comfortably past the 400 mark, though it took another 15 months to put it over the 500 mark."

"In 1940 the U.S. produced just 3.3 trillion cubic feet of natural gas and possessed some 287,000 miles of gas pipelines. By 1949 the production figure had doubled to 6.3 trillion cubic feet and the pipeline mileage had increased to 364,000 miles. In 1962 annual U.S. production of natural gas ran at an annual rate of 13.7 trillion cubic feet, moving to market through 687,000 miles of pipeline."

Ten years ago

(From the issue of September 4, 1978)

"Will anything come of the sound and fury raised by Ford dealers over Henry Ford's abrupt firing of his president, Lee Iacocca, this summer? Ed Mullane of Bergenfield, N.J., who heads the 1,200-member Ford Dealer Alliance, is launching a revolt with twin goals. He wants Iacocca back and he wants a dealer on the Ford board of directors. Dealer-factory friction in the auto business, of course, is old as the wheel, but Mullane is trying a new tactic—a dealer-stockholder protest."

UPI

Henry Ford II (right) *shown with Lee Iacocca, who was soon to be fired by Ford*

"Texas bankers are feeling so good nowadays that they are invoking the deity to explain their success. 'We're in God's country,' exclaims Robert H. Stewart III, chairman of Dallas-based First International Bancshares, biggest bank holding company in the state. . . . 'I thank God that, by accident of birth, I ended up here,' adds Gerald H. Smith, president of Houston's Allied Bancshares. . . ."

Thoughts
on the Business of Life

Intemperance is the plague of sensuality and temperance is not its bane but its seasoning.
MICHEL DE MONTAIGNE

To be able to use leisure intelligently will be the last product of an intelligent civilization.
BERTRAND RUSSELL

An unrestricted satisfaction of every need presents itself as the most enticing method of conducting one's life, but it means putting enjoyment before caution, and soon brings its own punishment.
SIGMUND FREUD

If we had to tolerate in others all that we permit in ourselves, life would become completely unbearable.
GEORGES COURTELINE

They must know little of mankind who can imagine that, after they have been seduced by luxury, they can never renounce it.
JEAN-JACQUES ROUSSEAU

Our expense is almost all for conformity. It is for cake that we all run in debt.
RALPH WALDO EMERSON

Luxury is the wolf at the door and its fangs are the vanities and conceits germinated by success.
TENNESSEE WILLIAMS

Every luxury must be paid for, and everything is a luxury, starting with being in the world.
CESARE PAVESE

Every degree of luxury hath some connection with evil.
JOHN WOOLMAN

We are the most extravagant nation on the face of the earth. Most of us indulge in luxuries unknown to nine-tenths of the people in other countries. Even those of us who are of the "working class" go in for more costly and more numerous pleasures, clothes, eatables, vacations, etc., than the corresponding classes of any European land. Do we not love ostentation overmuch? Are we not too prone to ape those better circumstanced than ourselves? Is not envy one of our flagrant national characteristics and curses?
B.C. FORBES

The man of pleasure, by a vain attempt to be more happy than any man can be, is often more miserable than most men.
CHARLES CALEB COLTON

The saddest thing I can imagine is to get used to luxury.
CHARLIE CHAPLIN

Mankind is safer when men seek pleasure than when they seek the power and the glory.
GEOFFREY GORER

Luxury is therefore absolutely necessary in monarchies, as it is also in despotic states.
MONTESQUIEU

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They are as sick that surfeit with too much as they that starve with nothing.
WILLIAM SHAKESPEARE

Freedom is not procured by a full enjoyment of what is desired, but by controlling the desire.
EPICTETUS

Every good thing that comes is accompanied by trouble.
MAXWELL PERKINS

We live in an age when unnecessary things are our only necessities.
OSCAR WILDE

The superfluous is very necessary.
VOLTAIRE

A Text . . .

For wrath killeth the foolish man, and envy slayeth the silly one.
JOB 5:2

Sent in by Thomas Haupt, Rockford, Ill. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Man will do many things to get himself loved; he will do all things to get himself envied.
MARK TWAIN

Life is not a spectacle or a feast; it is a predicament.
GEORGE SANTAYANA

You never know what you can do without until you try.
FRANKLIN P. ADAMS

ORBES
988 September 19

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guests to take a walk.

They walk to Merrill Lynch, Coopers & Lybrand, Boston Common and major theatres.

Our convenient location is in step with the Swissôtel philosophy: to stand for perfection in all we do.

So when you arrive at this perfect point of departure, you'll relax in accommodations that epitomize elegance. Be served by a cordial and efficient staff. Enjoy award-winning cuisine at Le Marquis de Lafayette.

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The Swiss Grand Hotel, Chicago

THE LAFAYETTE HOTEL
BOSTON
swissôtel

The first step in our new growth strategy was to lose 60,000 customers.

If you want to run a productive bank these days, you have to be prepared to steel your nerves and make some hard choices. We should know. In the wake of our decision to divest ourselves of our consumer banking division, we've just made 60,000 of them.

You see, Continental has embarked upon a new strategy. We're a business bank now. We intend to be the best business bank in the business. And if we really mean to grow toward that goal, it simply doesn't make sense for us to continue dividing our energies between our consumer and business banking customers.

So we're bidding a regretful adieu to our consumer accounts. But don't worry. We'll be introducing them in an orderly fashion to another bank, where we have no doubt they'll be well taken care of. Along with the business customers with whom they'll be sharing their new bank's attentions.

As for *our* business customers—well, they won't have to share our attentions

Continental Illinois National Bank and Trust Company of Chicago

with anyone. Instead, they'll discover in Continental the sort of fully committed financial partner that the typical commercial bank can never hope to be.

While that may be a boast, it is most assuredly not an idle one. Our single-minded focus on serving the needs of business is clearly evident in every facet of our operations. It enables us, for example, to offer some of the most sophisticated financial tools in the banking industry to companies that couldn't gain access to them before.

It means we can provide borrowing and investment opportunities that are a rarity at many other banks.

And, in the final analysis, it lets us do a better job of fostering growth in the business community—a process that should leave everyone better off. Even, quite possibly, the 60,000 consumer banking customers we'll no longer be serving directly.

If the notion of a fully dedicated business bank appeals to you, we invite you to call Continental at (312) 923-5184.

After all, while we may have lost some old customers, we're in a better position than ever to gain some new ones.

Continental Bank
A new approach to business.

How many things can a bank do and still do all of them well?

If you're a bank, your natural inclination is to try to be all things to all people.

But while that may be a laudable goal, in practice it is extremely difficult to achieve. Particularly when the people you're trying to be all things to include both businesspeople and consumers.

So at Continental, we've committed ourselves to being just one thing: a business bank. And what we do, we intend to do very, very well.

Our decision to specialize is rather unusual within our industry. Evidently most of our fellow banks find it perfectly comfortable to juggle checking accounts, home improvement loans and automatic teller machines with one hand, and interest caps, commercial paper and cash management plans with the other. However, the fact that the banks find it comfortable doesn't necessarily mean that you should.

Consider for a moment one of the more prominent emerging trends in the American business community. Historically, the most efficient companies have been the mammoth, diversified corporations.

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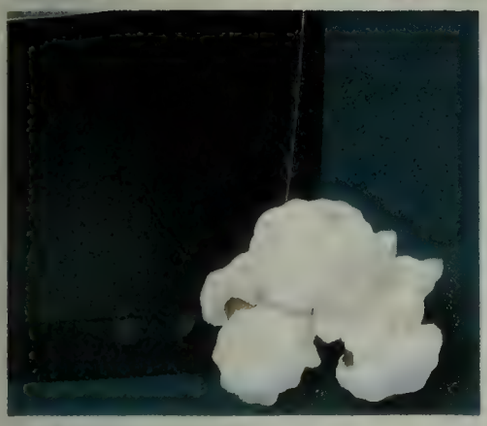
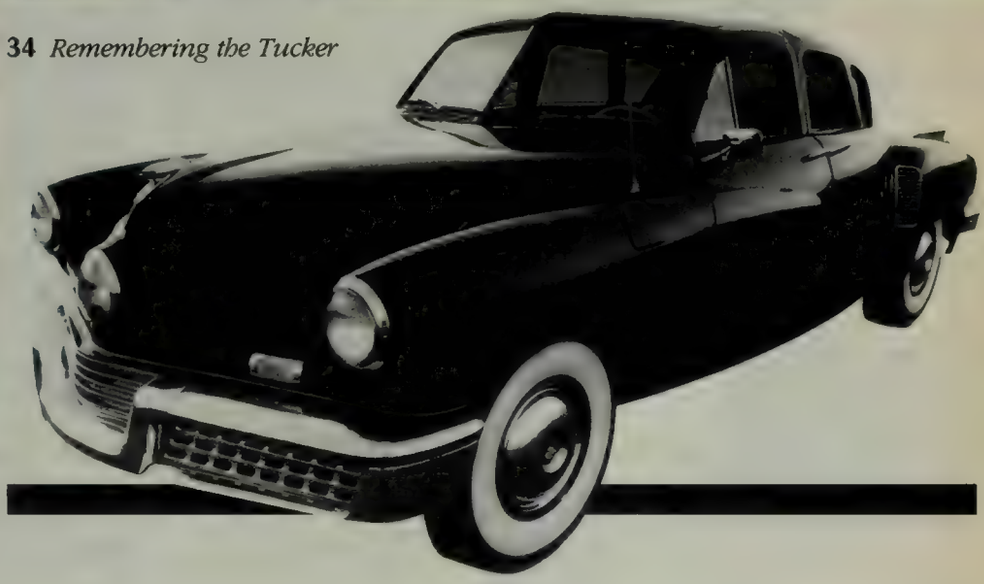


Cover illustration by Tommy Soloski

34 *Remembering the Tucker*



SEPTEMBER 19, 1988
VOLUME 142
NUMBER 6

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 220 AND 221.

COVER STORY

174 Good-Bye Cable TV, Hello Fiber Optics
By Gary Slutsker
Developments in communications and switching technology may enable the nation to get its home entertainment over telephone lines.

COMPANIES

36 Equitable Life
By Edwin A. Finn Jr.
Why its problems got out of hand.

41 Campbell Soup Co.
By Janet Novack
Campbell still makes tomato soup much as it did 70 years ago, alas.

56 Club Med
By Richard Phalon
Signs of a middle-age spread.

72 Fairfield Communities Inc.
By John H. Taylor
Right business, right time, but you'd never know it from the bottom line.

92 The Up & Comers: Levy Organization
By Steve Weiner
An odd but profitable mix of hot restaurants and newsstands.

95 The Up & Comers: Armor All Products
By Julie Schlax
The cost of paying off the founder.

106 Global Natural Resources
By William P. Barrett
A wild bunch even by Houston's free-wheeling standards.

118 Reebok International
By Gretchen Morgenson
No longer anything special.

120 Sunbelt Savings
By Howard Rudnitsky and John R. Hayes
Weird doings at this Texas S&L.

122 MCorp
By Toni Mack
Texans figure MCorp must be next on the bank bailout line. Maybe not.

124 General Motors
By Jerry Flint
The race is on to get GM's good-looking new cars to market.

128 CMS Energy
By James Cook
Can it salvage at least part of its $4.1 billion investment in nuclear energy?

164 Florida Progress Corp.
By Kerry Hannon
Florida's second-largest electric utility now owns citrus groves, a record studio and a door manufacturer.

INDUSTRIES

34 Automobiles: Wrong Villain
By Jerry Flint and Vicki Contavespi
Where was Michael Milken when Preston Tucker needed him? Coppola's new movie forgot to ask.

117 Energy: More Nuclear Follies
By Robert T. Grieves
A nuclear plant is converted to coal. The utilities write it off and the public pays. Does it make sense?

INTERNATIONAL

52 The Shah's Last Laugh
By Peter Fuhrman
Iran's shah sank half a billion dollars into Krupp, the German steel giant. Talk about bad investments.

64 A Disruptive Influence
By Katherine Weisman
How Michael Fay, the feisty New Zealander out to win the America's Cup, bucked the establishment.

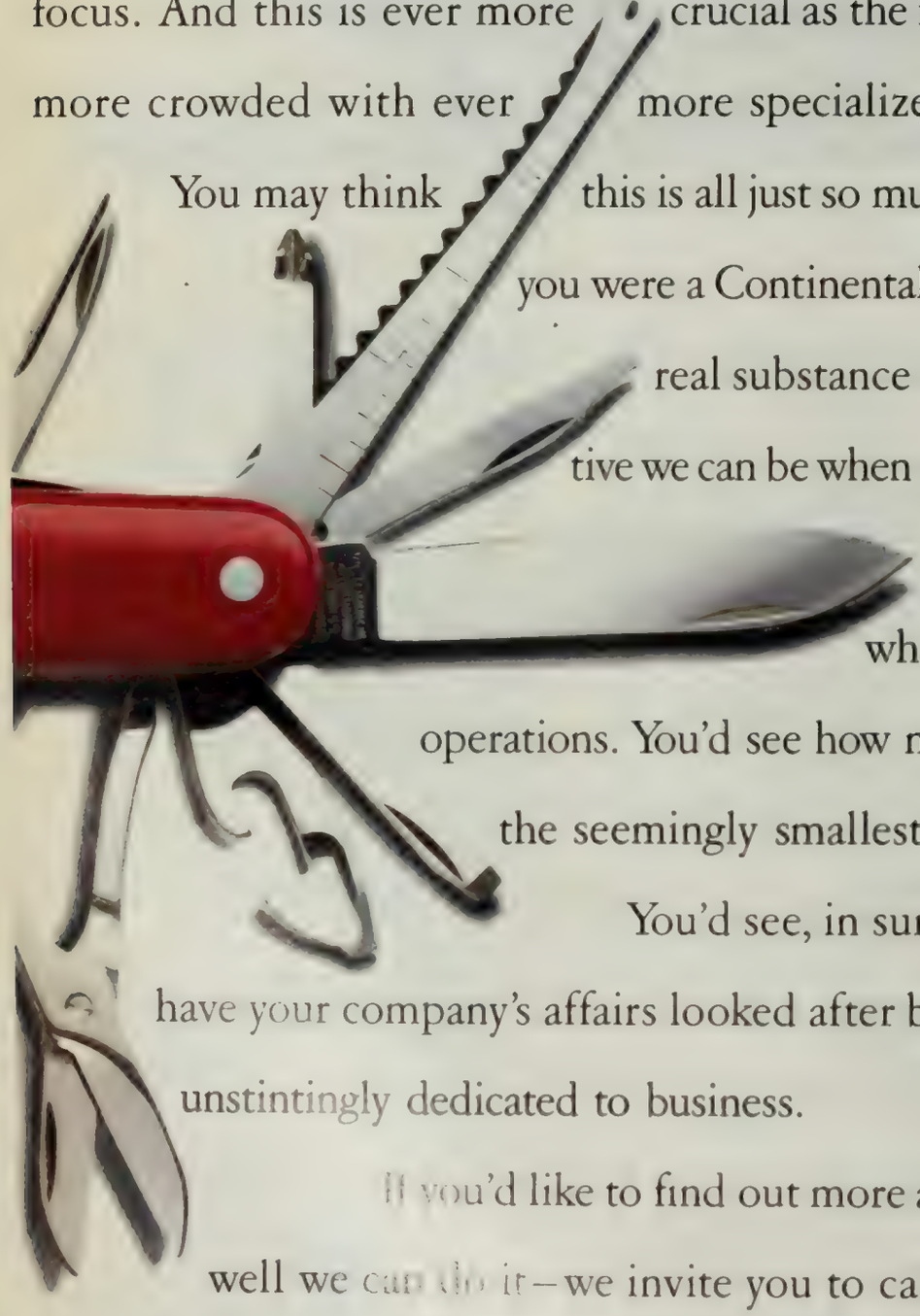
76 Sun, Sea And A Will To Change
By Richard C. Morais
Spain's flight into the 21st century.

80 How Many Bureaucrats To Install A Phone?
By Richard C. Morais
British Telecom's young chairman looks beyond his current problems.

100 Carnival In Rio
By Patrice Duggan
Market volatility here makes our crash last October look tame.

Today, though, the race is going increasingly to the swift: to the companies that know what they do best and stick to it.

Well, the same thing is happening in banking. In order for a bank to operate efficiently—in order for it to serve its clients effectively—it simply must narrow its focus. And this is ever more crucial as the financial marketplace grows ever more crowded with ever more specialized products.



You may think this is all just so much hollow philosophizing. But if you were a Continental client, you'd discover how much real substance it contains. You'd see how inventive we can be when you have a problem to solve. You'd see how well we can grease the wheels of your day-to-day financial operations. You'd see how much attention we lavish on even the seemingly smallest matters.

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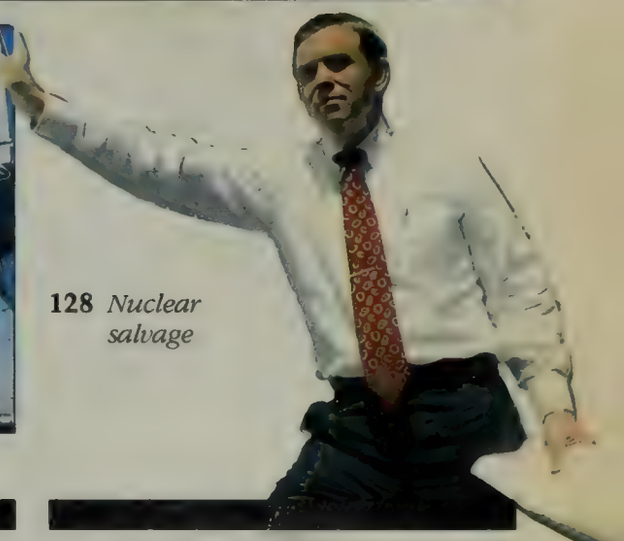
Continental Bank
A new approach to business.

36 *After the coup at Equitable*

64 *The America's Cup Defender*



128 *Nuclear salvage*

102 Underpriced And Neglected
By Marc Beauchamp
Varig, Brazil's national airline, has revenues of $1.2 billion, a market cap of just $30 million.

104 Profits By The Numbers
By Laura Jereski
International Thomson's cash cows.

INVESTING

84 A Genuine Seer
By Peter Brimelow
Robert Eggert's forecasts are sounder than those of his New Age neighbors.

132 The Funds: Seductive Spreads
By Jonathan Clements
The perils of buying bonds on margin.

134 The Funds: Shakeout
By Ruth Simon
Some promising funds, seedlings now, will die before they sink roots.

204 Statistical Spotlight: Steel Numbers
By Jack Willoughby
Beyond cash flow play in steel stocks.

218 Streetwalker
Fondo Accivalmex; Zapata Corp.; Kroger Co.; Synthetic Industries; Teléfonos de México.

NUMBERS GAME

138 Will The Truth Hurt?
By Penelope Wang
Should financial institutions mark more assets to market?

MARKETING

168 Diary Of A Failure
By Jeffrey A. Trachtenberg
Rating the people meter.

COMPUTERS/COMMUNICATIONS

174 Good-Bye Cable TV, Hello Fiber Optics
By Gary Slutsker
The exciting prospects for home entertainment via telephone lines.

179 The Fourth Wave
By Kathleen K. Wiegner
Data General's new opportunity.

184 How Do You Know When The ATM Is Out Of 20s?
By Ignatius Chithelen
How relational databases untangle application program snarls.

185 Commentary
By Esther Dyson
OS/2 is good for you.

PERSONAL AFFAIRS

186 Home Sweet One-Quarter Home
By Edward Giltenan
Salespeople love fractional ownership of resort properties. Should you? Also: Slices of the old India; eye problems.

CAREERS

192 Great Hash Browns, But Watch Those Biscuits
By Dyan Machan
Good management is attention to detail. FORBES gets an inside look at what that means at McDonald's.

DEPARTMENTS

8 Side Lines
10 Follow-Through
12 The Informer
14 Readers Say
17 Fact and Comment
22 Other Comments
25 Fact and Comment II
222 Flashbacks
224 Thoughts

COLUMNISTS

209 Ben Weberman
210 David Dreman
211 Ann C. Brown
212 Ashby Bladen
213 Mark Hulbert

MONEY & INVESTMENTS

31 What's Ahead For Business
32 The Forbes Index
201 The Forbes/Wilshire 5000 Review
206 The Forbes/TUCS Institutional Review

FACES BEHIND THE FIGURES

198 **Judson P. Reis,** *Kleinwort Benson Ltd.*
198 **Alan Siegel,** *Siegel & Gale*
199 **Dean Kleckner,** *American Farm Bureau Federation*
199 **Richard Mugg,** *U.S. Audi*

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Black boxes are too important to leave to the experts

For most of its 70-plus years, FORBES has concentrated on two vital ingredients of business: people and money. But the world changes. To operate successfully in business today one must grasp the essentials of computers and communications. Not necessarily how computers work, but how to make effective use of these machines and systems that are transforming the economy and society.

To better cover this dimension of business, we introduce with this issue a regular section, Computers/Communications. Readers already intimate with computers will find Comp/Comm of help in keeping up with practical applications. For the many who have avoided the subject as too arcane, too forbidding, our aim is to make the subject friendlier. Those black boxes are simply too important to leave entirely to the experts.

Computers/ Communications

Hank Morgan Photo Researchers

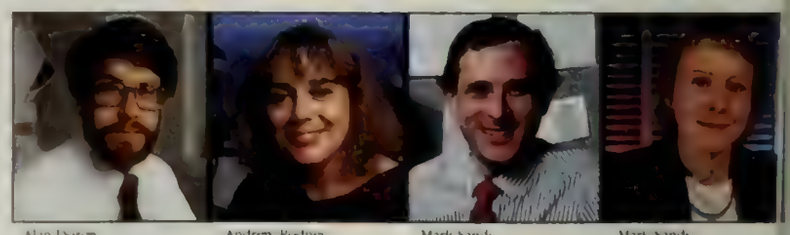
Laser light through optical fiber

Why mix computers and communications? You can no longer separate them. In an age when mainframes give way to networks and analog lines to digital switches, computers and communications are no longer discrete subjects.

We've assembled a top-notch staff for the section. Comp/Comm is edited by Assistant Managing Editor William Baldwin. Esther Dyson, well-known authority on personal computers, will serve as an adviser and continue to write her monthly column on how computers influence business strategy. Staffers assigned full time to the section are Kathleen K. Wiegner, a veteran Los Angeles-based editor who has long covered Silicon Valley for us; Gary Slutsker, author of this issue's cover story an editor of our technology section; and reporter Ignatius Chithe len. That staff will grow.

The section begins on page 174. "Good-bye cable TV, hell fiber optics" alerts you to computer/communications develop ments that are about to turn the home entertainment industr on its ear. Also: an article on Data General, a commentary fro Dyson on the new IBM/Microsoft operating system, and a explanation of relational databases.

FORBES' *Baldwin, Wiegner, Slutsker and Dyson*



Alan Dorow — Andrew Rodney — Mark Sands — Mark Sands

James W. Michaels
Editor

On a Monday afternoon in Philadelphia 201 years ago, the members of the Constitutional Convention overcame all disagreement. They endorsed the immortal document that put America on the path to greatness.

As wise Benjamin Franklin ☆ oldest of all the delegates ☆ signed his name, he looked one last time at the sun painted on back of the President's chair. He turned to the others and said:

"Painters always find it difficult to show the difference between a rising and setting sun. How many times during this difficult assembly have I looked at that American sun, and wondered ☆ is it rising ...or setting? This day, I finally have the happiness to know ☆ our sun is rising."

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Follow-Through

David Strick Obis

Instant tycoon

Mar. 23, 1987

The crowd cheered as Robert Weingarten built his First Capital Holdings Corp. from nothing to a $493 million (assets) mutual fund and life insurance empire in just over three years. But FORBES warned that First Capital, trading at 26⅞, or 35 times earnings, would tank, especially if the firm bought E.F. Hutton Insurance Group, as Weingarten planned.

Weingarten went ahead and spent $300 million (mostly junk debt) to buy Hutton. Earnings quality deteriorated and First Capital stock recently sold for 6¼. Weingarten personally has come out fine. Having built the company up from nothing, he now plans to sell his 15.5% stake to Shearson Lehman Hutton for $28 million—a 44% premium to the market—and stands to collect at least another $7 million later on. Shearson wants First Capital to add to its growing menu of financial service offerings.

As a sweetener, Weingarten agreed to offer Shearson another 13.7% of First Capital through a new issue of treasury stock. That will raise Shearson's interest, fully diluted, to 28% of the company, meanwhile diluting by at least 13.7% the equity stake of all remaining shareholders. Thanks, Bob.—**Alyssa A. Lappen**

Avon crawling

Apr. 21, 1986

Jan. 12, 1987

[illegible] Chairman Hicks [illegible] 1986 the ailing [illegible] year of renaissance [illegible] gave him little chance [illegible] early 1987 we again called [illegible] to task. While Avon [illegible] its damaged beauty [illegible] ness, Waldron had lost control [illegible] medical equipment rental subsidiary.

As we expected, Avon's much-ballyhooed renaissance has not materialized. Earnings fell last year to about $149 million, on sales that were also off slightly, to $2.8 billion. Moreover, Waldron's plan to build a health care business with sales of $1 billion by 1988 has been scrapped. The troubles became so bad that now Avon is selling Foster Medical Care for a $95 million aftertax loss and will also dump its Mediplex health care facilities and its small retirement home chain.

This year Avon is expected to earn only about $170 million on sales of $3.2 billion. Investors are unenthusiastic. At 23½, the stock is trading near its low for the year.—**A.A.L.**

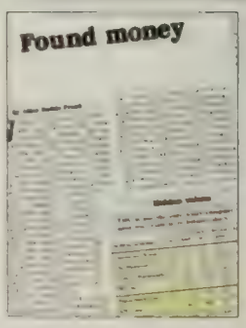
Robert Wallis/B Pictures

Canon's comeback

May 2, 1988

The fact that Japan's Canon Inc. did most of its business outside Japan last year seemed to make it vulnerable to the rising yen. But FORBES predicted that Canon's weak earnings would rebound. Canon is innovative and particularly deft at developing new products, we wrote.

Now the results we predicted are starting to show. Last month Canon announced that unconsolidated net in the first half of 1988 had nearly tripled, to $68 million, from the same time last year, on sales up 22%, to $2.3 billion. Though the yen is still strong, foreign sales are up 19% over 1987 levels, and now account for roughly 73% of overall sales.—**A.A.L.**



Found money

Aug. 11, 1986

For more than 100 years the Hydraulic Co. (formerly Bridgeport Hydraulic) earned modest but predictable profits by supplying water in southwestern Connecticut. But in 1986 FORBES noted that the firm also owned 20,000 acres of prime real estate. If it sold even 2,200 acres, as it then proposed to do, FORBES estimated it could raise $100 million.

At least one group of FORBES readers took note. A limited partnership involving Houston investors Sid Bass and Richard Rainwater now owns a 5.3% stake in Hydraulic. They bought the shares "as an investment."

Yet it may take a while before that investment pays off. Under old Connecticut rules, 100% of any return on water company real estate sales must go back to customers through lower rates. Hydraulic's recent request that the state's public utility commission liberalize the rules was denied.

Now Hydraulic plans to apply for waivers on a case-by-case basis. The first 85 acres it hopes to sell are largely wetlands unsuitable for building, worth less than $600,000. Later on Hydraulic hopes to sell 715 more acres, which could bring in $32 million. Meanwhile the high-yielding stock (annual dividend, $1.52) remains a safe long-term investment for the patient money of Bass, Rainwater and their partners.—**A.A.L.**

Brian Albert

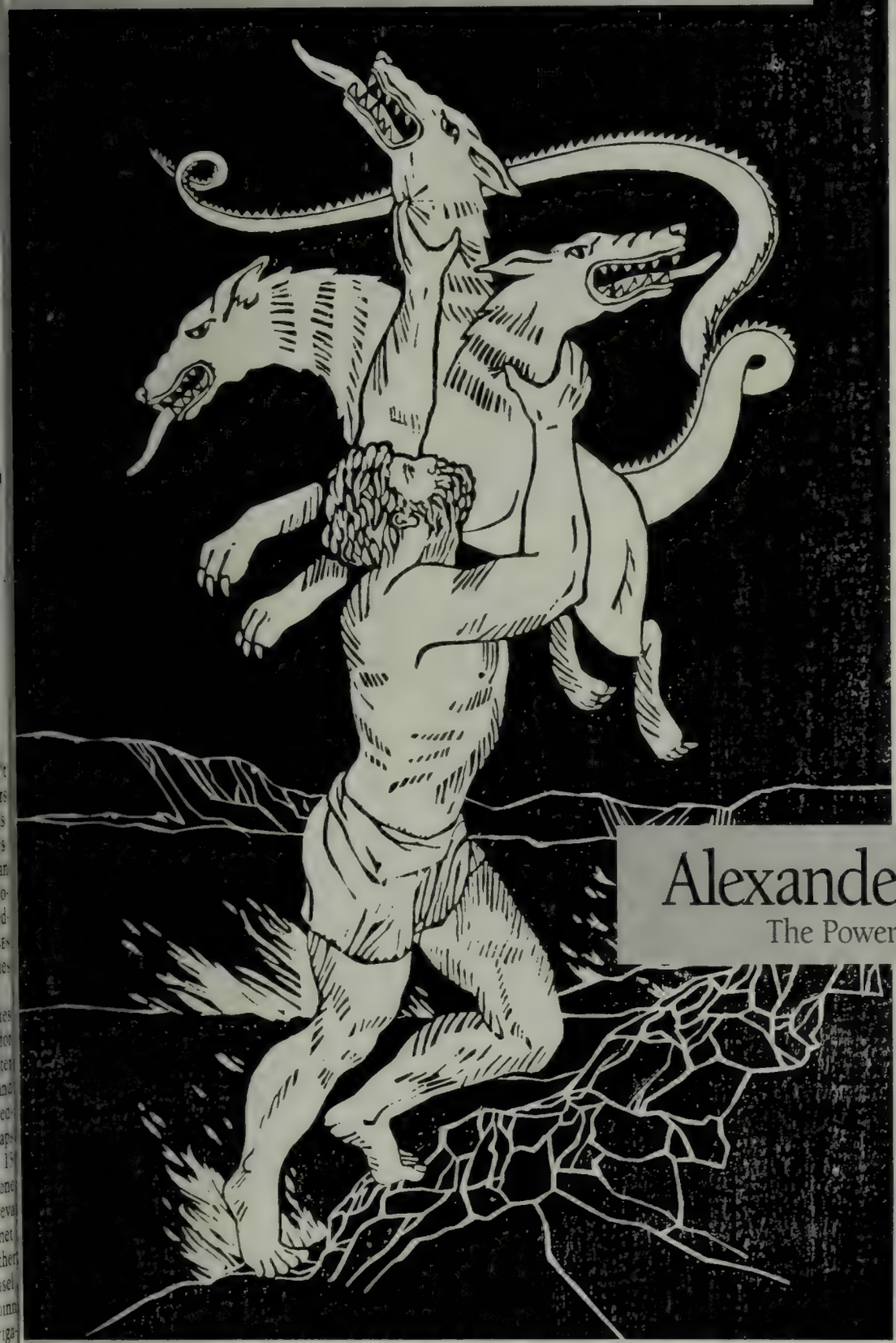
Stock fraud comes to Europe

Sept. 23, 1985

Goods made in the U.S. weren't selling well abroad three years ago, but worthless U.S. stock was. Through Chartwell Securities, FORBES reported, New York con man Tommy Quinn had bilked 8,000 European investors out of $30 million peddling valueless U.S. stock. FORBES warned that Europe was full of rogues like Quinn.

What of Quinn? French authorities have arrested him and six buddies for selling worthless over-the-counter stocks to West German, Swiss and French investors. Quinn was allegedly a key player in the sale of perhaps $150 million of stock in 10 to 15 doubtful U.S. companies through one firm in Nyon and two in Geneva alone, says Laurent Kasper-Ansermet, examining magistrate there. Other scams were allegedly based in Basel, Lugano, Düsseldorf and Paris. Quinn is in a French jail while the investigation proceeds.—**A.A.L.**

Compared with managing a modern corporation, carrying a three-headed dog back from Hell was a walk in the park.



Hercules didn't seem to have a big problem with Cerberus. After all, not only did he carry the dog up from the lower world, he also carried him back, without a hitch.

Modern-day management problems, like productivity improvement, should be so easy.

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Forbes Informer

Edited by Gretchen Morgenson

Citizen Boone

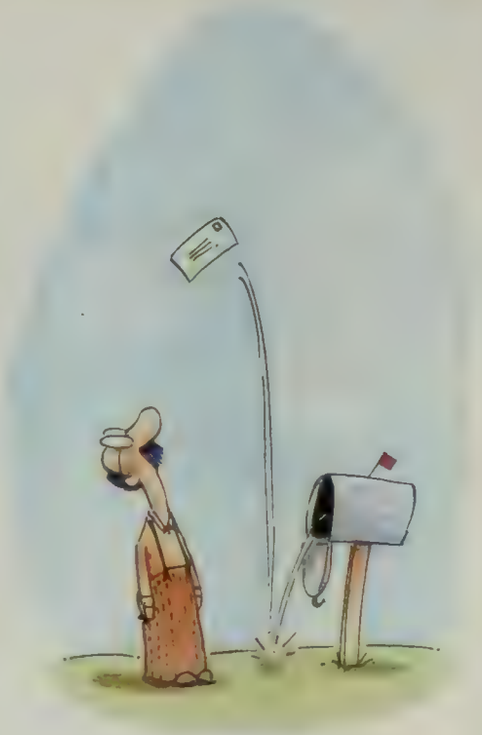
You're probably tired of hearing about him, but T. Boone Pickens just won't stay out of the news.

Pickens is trying to get out of a contract requiring him to sell natural gas to his hometown of Amarillo and environs at cost. Pickens inherited the 1928 contract when his Mesa Limited Partnership bought Pioneer Corp., Amarillo's natural gas producer, in 1986. Eager to up his take from this contract, Pickens breached it. Late last year he jacked gas prices up over cost, from $2.65 to $2.76 per mcf. Not much of a boost, but it broke the contract. It also complicated a related lawsuit involving Mesa and the city.

Pickens is trying to use muscle to settle the case in his favor. He has threatened to leave Amarillo, taking Mesa and its 400 jobs with him. But he says he'll try to add 200 jobs to Mesa's payroll if the city settles.

Under Pickens' settlement proposal, Amarillo would waive all rights to the terms of the 1928 contract, forgive Pickens' past increases and pass an ordinance effectively forbidding other companies to sell natural gas to Amarillo. The settlement plan has a surprising number of supporters in the city government, including the mayor, but then Hizzoner is leasing agent for some choice Mesa property downtown. Can't stay out of the newspapers even when you want to, can you, Boone?

Mesa's T. Boone Pick
Will Amarillo pay up to keep him?



Bouncing dividend

What's more alarming than a dividend cut? A dividend check that bounces.

So discovered some shareholders of Bairnco Corp., a NYSE-listed electrical equipment maker with $630 million in 1987 sales. Several weeks back, some 600 Bairnco stockholders, depositing their dividend checks as ever, were shocked to see them come winging back uncashed. Even worse: Their bank accounts were hit with bad-check charges.

The villain in this shareholder shakeup was not Bairnco; rather, it was the company's trustee, Harris Trust Co. Harris, which had been handling Bairnco's dividends for years, explains the glitch as a "clerical error" that is being corrected. Startled shareholders will eventually get what's coming to them, plus a reimbursement for bad-check charges.

The bouncing dividend is the last Bairnco payout handled by Harris. The company had switched trustees, moving to Continental Illinois just before the incident.

Credit card con

Everybody knows Americans are credit card junkies, but how addicted do you have to be to pay a one-time $35 fee for two obscure charge cards called Merchants Card and ICS-3000? According to a mailing from International Credit Service Inc., those gullible enough to fork over receive the cards and a charge limit of $3,000, which can be used "exclusively in catalogs and brochures." All this "regardless of your past credit history."

A phone call to Manhattan-based ICS turned up a lonely secretary, whose job seems to include stonewalling. "You have to send in money before you get any more information," she explained. Fair warning: If you're on this mailing list, quickly wastebasket anything they send you.

Unloading Quotron

Back in 1986 Citicorp acquired Quotron for $680 million in cash. Some thought the price—30 times earnings—a little rich. But Citi said the purchase of the financial information concern was made with "a five- to ten-year time frame" in mind.

Make that two years. Word on The Street is Citi wants to unload Quotron, the original computer-based stock quote system. Not surprising; in 1987 Citi's information services, which include Quotron, lost $85 million on revenues of $260 million.

It's certainly a sellers' market for companies in information services, but considering what it paid and what has happened since, Citi will almost certainly have to take a loss if and when it sells. For its part, Citicorp says Quotron is not for sale.

Smooth landing

Who would be crazy enough to launch a big new real estate development in Texas today? Ross Perot. He's sinking more than $100 million into a 2,500-acre industrial park in Fort Worth.

The centerpiece of his Alliance International Centre is an airport, billed as the U.S.' first dedicated to industrial use. Perot gave 380 acres for it, and House Speaker Jim Wright lined up $25 million in federal funds. (Jim's a good man to have in your corner if you want largesse from Uncle.)

Perot's putting up lots of his own scratch. He quietly bought the land two years ago for a reported $60 million or so. Preparing the site will cost at least another $70 million. Ross Perot Jr. is heading up the project.

Local brokers think the project should do well, what with industrial space showing a vacancy rate of "only" 9.4% in the area. If Perot gets the

$100,000 to $200,000 an acre he's asking, he will net well above $50 million in the many years it will take to develop the project. Not a great return, considering how long he's held the land, but not bad, considering it's Texas real estate.—**Eric Schmuckler**

Secondhand goods

So you like leveraged deals? Here's one likely to top them all. Last summer cable behemoth Tele-Communications, Inc. gobbled up Heritage Communications, swallowing cable systems and spitting out TV and radio stations as an LBO to management. A scant year later management of the broadcast company wants to cash out.

Listen to the terms of this First Boston offering: Debt will be six times equity after the offering; interest costs exceed earnings. None of Heritage Media's six television stations are in top-30 markets; they're in smallish spots like Mobile, Ala. and Sioux Falls, S.D. And, like many media companies, Heritage stock comes in multiple classes; postoffering, Chairman James M. Hoak will control over 70% of the votes while owning 29% of the total common equity.

The public will be paying Hoak and his friends somewhere between $5 and $6 a share for stock that cost the insiders $1.59 per common share just last year. Yes, we know: Media properties command high prices these days, but how high is high?—**E.S.**

Thank you, PaineWebber

Of the almost $10 million paid in speaking fees for members of Congress last year, the top four contributors were associations: the American Trucking Association, the National Association of Broadcasters, the Securities Industry Association, the Tobacco Institute.

But number five on the list was a company, PaineWebber. The normally low-profile brokerage firm weighed in with $100,668, just a hair under the Tobacco Institute's $102,000. A spokesman at PaineWebber explains: "We like to keep our clients up to date on what's going on in Washington."

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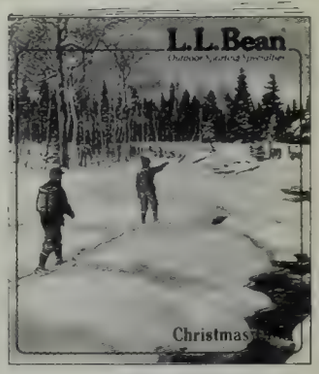

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Readers Say

Where the sun don't shine

SIR: Re your quote in Other Comments attacking moustache fakery *(Aug. 8)*. This morning I lathered up a region of my face that has not seen shave cream or felt the bite of a razor since the early Seventies. The question now is, "Should the president of *The New Yorker* wear a moustache?"
—Steve Florio
President,
The New Yorker
New York, N.Y.

Gerry's kids

SIR: Re Fact and Comment *(Aug. 22)* with the piece by our son, Jack. I thought Jack's piece was well done. It was interesting to me that he used excerpts from letters I wrote the family in August 1953, when I was on a Committee on Appropriations inspection trip to Korea, South Vietnam, Taiwan and Japan. I believe this generation can and will do a fine job in the future.
—Gerald R. Ford
Rancho Mirage, Calif.

Cover girl

SIR: How much longer will it be before MSF slips a photograph of Liz on the cover of the magazine? The suspense is killing me.
—Robert S. Ennis Jr
Seattle, Wash.

While not on the cover, we did slip her in Fact and Comment (Aug. 22).—MSF

Elizabeth Taylor and friends

SIR: I was intrigued with the [illegible] describing ET upstaging MSF. [illegible] charmed with your reference to this fine lady by the simple initials [illegible] Next time, tell your photographer to get a full head shot of ET—even if it means MSF is relegated to the background.
—Chris Larsen
Columbia, S.C.

Selective unconscious

SIR: Your article on our company ("Get off at the next stop," *July 11*) represented only the views of a group of minority shareholders. Several customers, franchisees and employees were interviewed and their positions were arbitrarily deleted. References to my father as "the old man" were uncalled for. My father's contribution to this country has been exhibited not only in his war record but his continual contributions to political and community causes.
—K. Jeffrey Dahlberg
President,
Dahlberg, Inc.
Minneapolis, Minn.

"The old man" is a synonym for bosses of any age. Being 69, I totally agree 70 ain't old.—MSF

Mother's little helper

SIR: Agreed, if the government gets into the day care business it will bollix it and saddle taxpayers with astronomical costs *(Fact and Comment II, July 25)*. However, you're out of touch if you think there are enough grannies and maiden aunts available to take care of the kids; they're out there working, too. The answer is for business to provide day care in a setting where mothers could have lunch with the kids and say "hi" during coffee breaks.
—Jean L. Whiston
Bridgewater, N.J.

Bank bondage

SIR: Re your account of the FDIC's handling of the greedy arbitragers in the First RepublicBank bailout ("The FDIC's learning curve," *Aug. 8*). Much of this disastrous monetary loss will be absorbed by the unsophisticated little people who sought seemingly sound investment income. Regardless of who now owns this paper, it was originally and still is a $1.3 billion [illegible] in and placed into the asset base of the bank as such. Will this new vindictive FDIC posture effectively discipline the arbitrager or will it place the investment value of all bank bonds at risk? I submit the latter.
—J. Bruce Jackson
Mansfield, Ohio

SIR: It is hard to imagine that an institutional investor "stiffed" by the FDIC will ever purchase another bank bond. The FDIC's decision is truly "penny wise and pound foolish."
—Robert L. Hopkins
Dunwoody, Ga.

Not a pretty picture

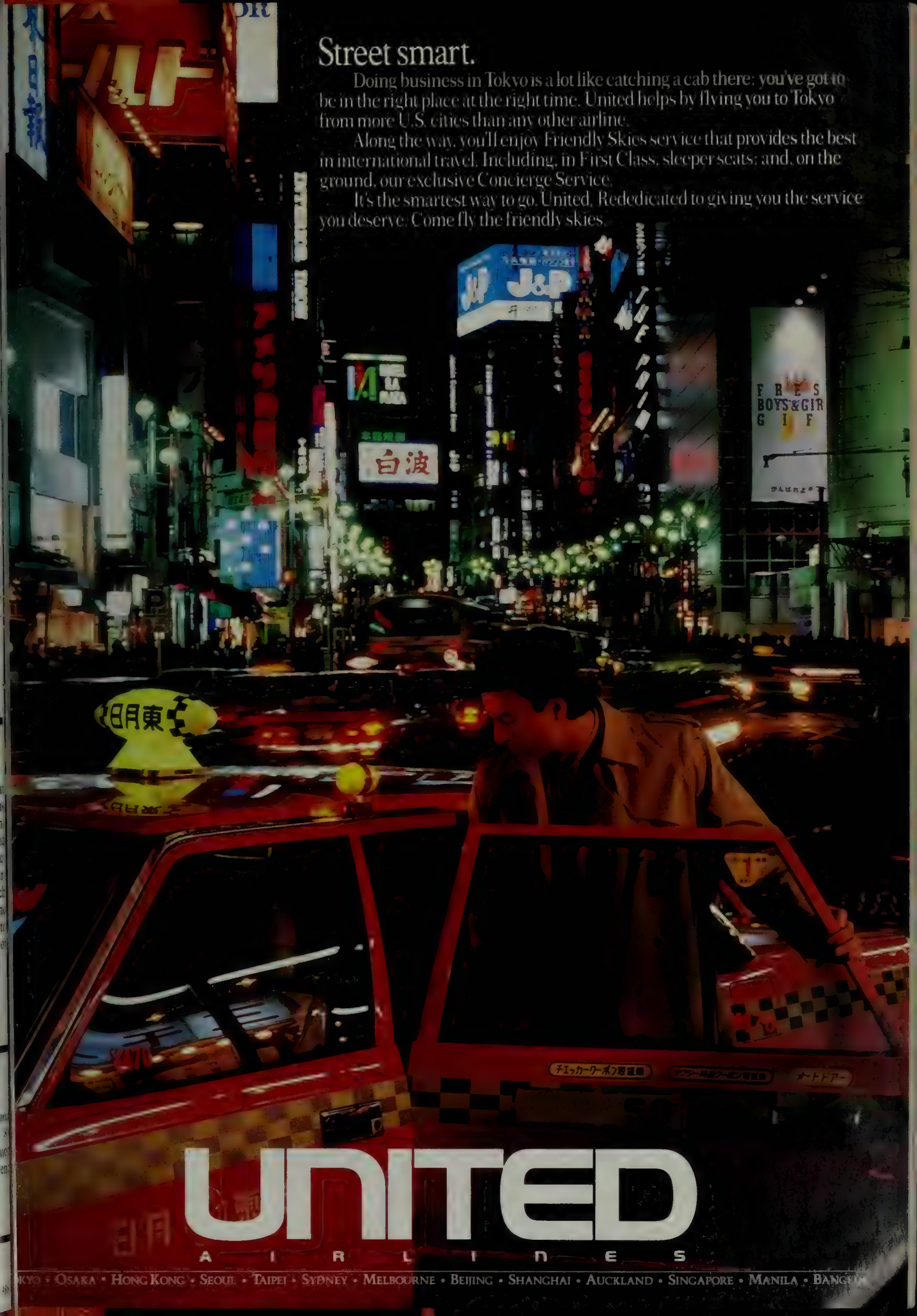
SIR: I saw my picture in your story "Jonestown" *(Aug. 22)*, which I immediately recognized. When I read the accompanying article on our company, the Edward D. Jones & Co. I know was unrecognizable. In the securities business, every firm makes mistakes, and I in no way want to minimize ours. But as an organization dependent for the past 117 years on the confidence and goodwill of our customers, we could not exist in the 1,350 communities we serve if we were even remotely the company described in your article.
—John W. Bachman
Managing Principal,
Edward D. Jones & Co.
Maryland Heights, Mo.

One man's mess

SIR: Re your article "The mess at Maxicare" (*June 27*). The "mess" was caused almost entirely by a horrendous decision by Maxicare's Fred Wasserman. Maxicare's trouble occurred when it couldn't digest its purchase of Health America, which turned a profitable company into one with massive debt. It is unfair to strike at the industry on the basis of one man's decision.
—Hyman R. Kahn
Senior Vice President,
US Healthcare
Blue Bell, Pa.

Bedeviled

SIR: Your book review of *The Devil and Dr. Barnes (Fact and Comment, Aug. 8)* was tawdry. With most of the major museums becoming amusement parks, leave Dr. Barnes alone!
—Frank Arfmann
New York, N.Y.


Street smart.
Doing business in Tokyo is a lot like catching a cab there: you've got to be in the right place at the right time. United helps by flying you to Tokyo from more U.S. cities than any other airline.
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"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

BUSH'S SUPERB CONVENTION SPEECH MAKES IT AGAIN A RACE

He touched all the bases, raised the right issues, humorously deflected the jibes and was clearly Presidential in his words, bearing and delivery.

The press' "feeding frenzy" on Quayle's National Guard service will fade as it flails itself out. That Senator Bentsen's son went the National Guard route, along with Senator Bill Bradley and a number of other sitting Congressmen and Senators, suggests that vilifiers won't succeed in stigmatizing such service in the eyes of most of the voters.

As the *New York Times* reports, "Of 131 members of Congress born from 1942 to 1950, and therefore most vulnerable to the military draft and duty in Vietnam, nearly two-thirds never entered into military duty of any kind, according to their official biographies."

For the way to go for George Bush, see Richard Nixon's compelling comments beginning on the next page.

DATELINED NEW ORLEANS, 49 YEARS AGO MY FATHER

ended his widely syndicated daily business column with these words:

"Whenever you have the opportunity, see America. Its best days are yet to be."

He was right then.

And from New Orleans almost half a century later, George Bush's words to the same effect are equally right right now: America's best days are yet to be.

IT'S SCARIFYING THAT IRAQ'S USE OF POISON GAS

during the last four years of its war with Iran didn't, at the first instance, produce world outrage so total that it ceased.

The utter horror of its use in WWI made it anathema.

In WWII no nation used poison gases.

When the dust has settled on the peace between these two, the world, by way of the U.N., had better so effectively condemn/punish Iraq that no one in the future will dare use such vile gases again.

THE BLOWING UP OF PAKISTAN'S ZIA IS A HEAVY BLOW

President Zia's ramrod backbone, combined with his articulate and persuasive cordiality, made Pakistan a redoubt in the bloodily successful struggle to free Afghanistan from Russian occupation. In a country so riven by fiercely bitter tribal strife and Muslim differences, that he was able to govern with effective firmness was an ongoing wonder.

Never once did Pakistan waiver in its hugely risky role as the supply line for U.S. aid for Afghan freedom fighters. Being a base for 3.5 million coming and going refugees was a torturous burden for Pakistan and Zia.

Jerry Yong

Islamabad, Apr. 13, 1983: President Zia awards MSF Pakistan's highest civilian honor at the completion of FORBES' motorcycle/balloon Friendship Tour.

Literally, he spilled his guts making, keeping Pakistan a bastion in the fight to roll back Red aggression.

Afghanistan, as well as Pakistan, owes its status and stature today in major measure to General Zia ul-Haq.

It's great that he survived long enough to know that he succeeded.

IN SHOW BUSINESS REAL HEART SHOWS AFTER A FALL

A while ago one of jazz' true greats, 70-year-old Ella Fitzgerald, was mesmerizing a full audience at the Hollywood Bowl when she crashed on stage steps she'd been blinded to by the bright lights. As those on stage and in the wings rushed to help, *Newsday* reports her quipping, "It's okay. I'm okay. I'll just sing from down here."

AP/Wide World Photos

Ella at the Hollywood Bowl

Really in pain, she was helped to her feet, insisted on finishing her song, and then had to be virtually carried off.

To the audience's surprise, she did return, though her doctors, who happily happened to be in the audience, told her to stay seated while she sang. At one point she tried standing and couldn't.

And what was the first song from this great, uplifting lady on her painful reappearance? *Since I Fell for You.*

IT COULD BE A GOOD BREAK FOR MIKE TYSON

Daniel Sheehan Newsday

In his wee-hours re-flattening of that insultingly obnoxious boxer Mitchell Green, Mike Tyson gave his Big Bertha right hand a hairline fracture. The press commented that this could cost the champ $6 million if it required canceling his London fight, scheduled next month. On the contrary, though, even a postponed date would be built up by speculation that his right might be hobbled—physically and/or psychologically.

And what a buildup is being given for a *real* grudge return bout with mouthy Blood Green.

Isn't it lovely that the two-fisted, up-from-the-streets World Champion can still handle the mean street fight scene when a mean one messes with him.

And what poetic justice to have his hairline fist-break turn into a Big Bucks break.

WE GOT A KICK OUT OF THE PICTURE *BUSINESS WEEK* USED

Bill Kennedy

to illustrate its story about the $3.2 billion deal that brilliant, dynamite dynamo Rupert Murdoch made for the publishing properties built by the extraordinary Walter Annenberg. It shows this tycoon-twosome deep in conference but doesn't identify where. It's a scene aboard the FORBES *Highlander*—where else!?!

Incidentally, we also get a kick out of the fact that in the headlines and everywhere else people keep referring to their agreement as a "$3 billion deal." That .2 is ignored or sloughed over. To most of any of the rest of us .2 as in $200,000,000 wouldn't seem so insignificant as to be ignorable or overlookable.

THE PATH GEORGE BUSH MUST TAKE

In Newsweek, Richard Nixon has written a penetratingly graphic [illegible] of what George Bush must do if he is to win this fall's election against the odds. Herewith some succinct excerpts

"In [a few] we[illegible] people will be asked to decide whet[illegible] to continue the basic policies that have [illegible] peace and prosperity or to try new po[illegible] improve on the Reagan record.

"**Non-issues:** Contra[illegible] assertions, this election is about ideology, not competence. Both candidates are competent. Nor is it about Ed Meese and the Iran-contra affair or high taxes and corruption in Massachusetts state government. It is not about where George was or where Mike was. It is about

(Continued on page 214)

MOVIES

● **Bull Durham**—This may be how it is in the minors, but baseball and sex never had it so good in the majors. ● **Cocktail**—Tom Cruise will survive this, but you're unlikely to. ● **The Last Temptation of Christ**—It's a happy irony that religious-extremist protestors have made this extraordinary film a box-office sensation. If it hadn't been for them, it wouldn't have been such a record-breaking sellout. ● **Mr. North**—Absolutely delightful. A '20s Yalie scholarshiper summer-babysits in Snobport, Rhode Island. As a result of his giving off more sparks than most of us do when we scuff across a rug, the whole town annoints him as a Healer, embittering the stuffed local quack who feeds the Rich hypochondria. The good guys triumph. You'll love it.

MANY TERMS ARE BEING TRIED AS TAGS FOR THIS COMPUTER AGE

which we are really only at the dawn of. What can be conjured up on your terminal's screen is—eventually—where it'll all be at. Well, maybe not *all,* but almost everything you need to communicate, know, can know, conceive, figure, compute, conceptualize, will be, literally, at your fingertips.

Which is the Why of FORBES' brainily broadened coverage of Computers/Communications, beginning on page 174 of this issue. Not how computers work, but *what* they work, what work they can do that can significantly affect corporate strategies and the whole future of each and every enterprise.

This new FORBES editorial section will keep you up to speed on what is happening, what will be happening on the screens that control the economy's present and whose uses will determine its future.

THE COMPACT GENERATION

Writes reader Roger Christensen: "A recent incident aptly illustrates the generation gap. My elderly aunt wrote, somewhat distressed, that she had misplaced her compact. Our 11-year-old read the letter and asked, 'Compact what?' "

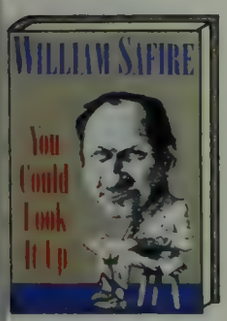
WALK NOT AND YOU'LL

weigh up.

RUNNING

provides no escape.

BOOKS



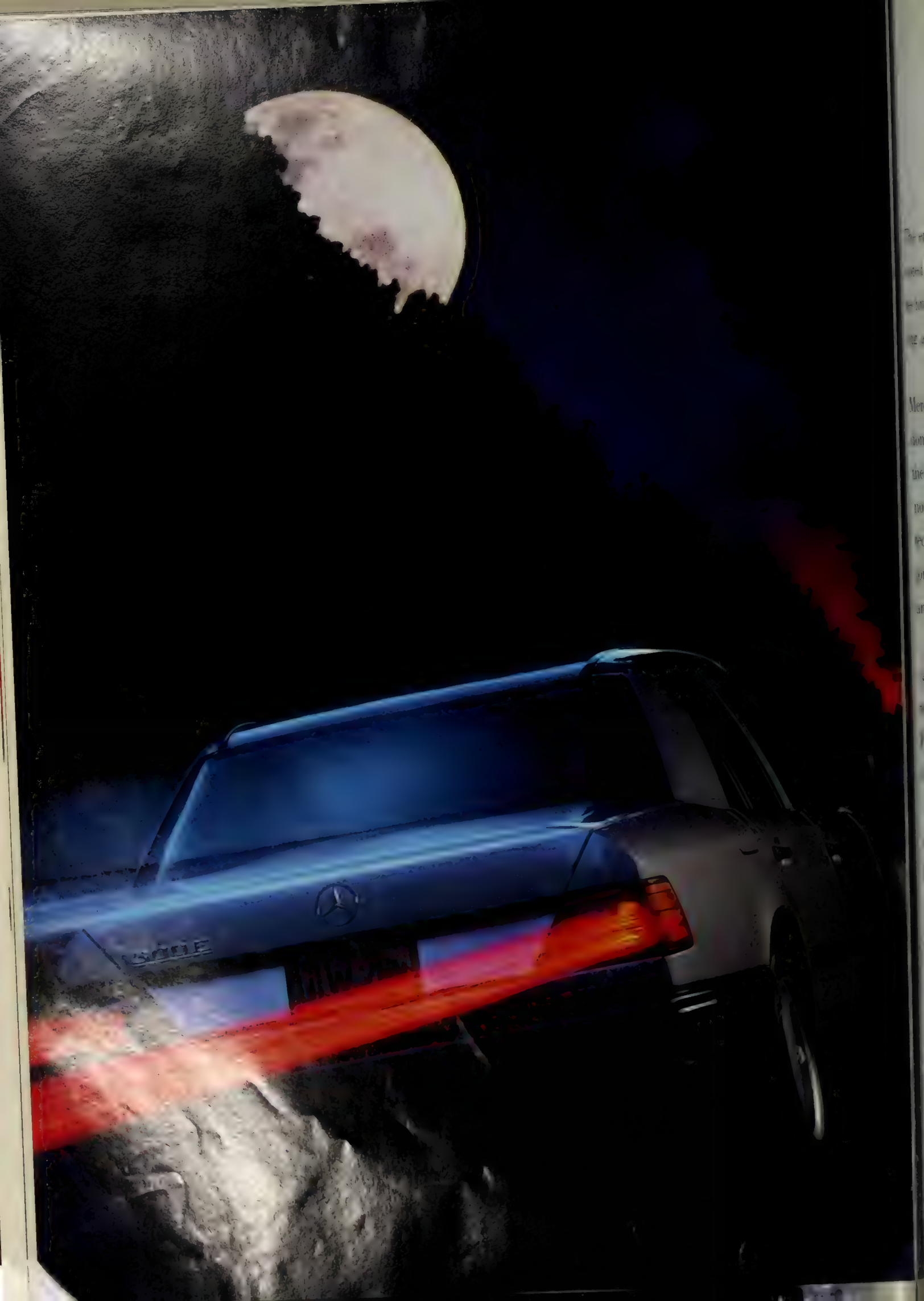
● **You Could Look It Up**—by William Safire (Times Books, $22.50). A fabulous treasury of Bill Safire's *New York Times* essays and assays on language. Delightfully incisive, witty words that are the Safire trademarks. (He'll probably have a conniption because the previous sentence isn't.)

Excerpt: *In a piece labeled "Clause Wits," I showed how some unthinking writers twisted their meanings by misplacing clauses. The famous example was "Abraham Lincoln wrote the Gettysburg Address while traveling from Washington on the back of an envelope."*

The trouble with my exposition was that I identified on the back of an envelope *as a clause. That was an error; a clause, writes Professor Robert M. Isaacs of Housatonic Community College in Bridgeport, Ct., "is defined as a group of words that contains a subject and a predicate. It may be dependent or independent." (I will point out a dependent clause if I can: It is the* if I can *leaning dependently on the main, independent clause at the beginning of that sentence and pleading for the keys to its car.) Adds Mike Hindman of Effingham, Ill.:* On the back of an envelope *is a prepositional phrase. Here is an example of a misplaced clause:* The man with the wooden leg that has an I.Q. of 160 will speak at the meeting. *One wonders about the I.Q. of his real leg. The clause, which includes a subject,* that, *and a verb,* has, *should modify* man, *not* leg."

● **Tracks in the Sky: Wildlife and Wetlands of the Pacific Flyway**—by Tupper Ansel Blake and Peter Steinhart (Chronicle Books, $35). Depicts the wildlife using the flyway-skyway-highway provided by the wetlands of the Pacific. As usual with concerned naturalists, the people of America get the bird. Almost every shot is framably well reproduced.

Excerpt: *During his tenure, Teddy Roosevelt created a total of 53 units of the National Wildlife Refuge System in 17 states and territories. In one day alone in Feb. 1909, the president created 17 refuges by executive order. The pressures on the remaining natural lands as a place where organisms can make a living will continue to grow as our western human population increases. The following statistic is telling: 60% of the migratory birds of the Pacific flyway winter in California's Central Valley, where only 5% of historic wetland habitat remains. The importance of this book is the opportunity it represents to educate and inform the citizenry of the values and beauty in our western wetlands. We hope this book will be a call to commitment to conserve these incredible areas.—from the foreword by Glenn Olson, National Audubon Society.*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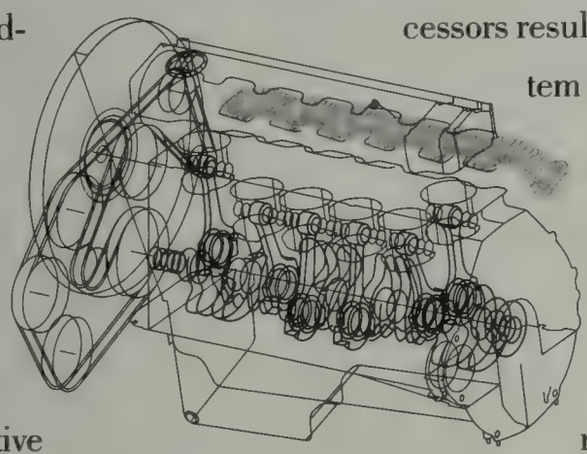
THE MERCEDES-BENZ 300 CLASS: ITS TECHNOLOGY MAY BOGGLE THE MIND, BUT THE SOUL UNDERSTANDS IMMEDIATELY.

The engineers of Mercedes-Benz have long been noted for their uncanny ability to turn remote technical exercises into rewarding automotive experiences.



With the 300 Class, Mercedes-Benz engineers have done nothing less than turn the theoretical into the phenomenal. Distilling esoteric technology into what one automotive journal calls "a mechanical symphony." Creating an automobile of sublime driving pleasure.

An automobile whose electro-mechanically controlled six-cylinder engine produces robust power—177 horsepower in three-liter form. Power so smooth that even at test-track velocities, the engine's exertions can barely be felt.

Other advanced engineering concepts produce further refinements of the classic Mercedes-Benz driving character. A multilink independent rear suspension system preserves near-perfect geometry between tire and road, resulting in a ride that *Car and Driver* terms "nothing short of magical." While the same journal reports handling prowess so inspiring that "you can charge unfamiliar territory as though you were on your daily route to work."

Advanced aerodynamics have shaped a 300 Class sedan body that cuts drag to a slippery 0.31 Cd—and wind noise at cruising speed to near silence. The advanced application of microprocessors results in an Anti-lock Braking System that modulates braking pressure up to 15 times per second in sudden hard stops, preventing skidding and preserving steering control.

And advanced technology addresses the concern for occupant safety: microprocessors in the Supplemental Restraint System are primed to deploy a driver's-side air bag and front seat belt emergency tensioning retractors within *milliseconds* of a major frontal impact.

In their pursuit of a superbly capable automobile, the engineers of Mercedes-Benz have created one of the most sophisticated production cars ever built. But you need not be an automotive engineer to appreciate their achievement. You need only drive any one of the 300 Class automobiles: 260E and 300E Sedans, 300CE Coupe and 300TE Station Wagon. You—and your soul—will understand immediately.

Engineered like no other car in the world

1988 Mercedes-Benz of N.A., Inc., Montvale, N.J.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Voodoo Economics

As Roosevelt prepared for the 1934 congressional elections, he regretted a speech that he had made in 1932 in which he vowed to cut federal spending if he were elected. FDR instructed speech writer Samuel Rosenman to review the speech and find a means of interpreting the remarks in his favor. After rereading Roosevelt's earlier words, Rosenman could find no way to whitewash FDR's promise, advising him as follows: "Mr. President, the only thing you can say about that 1932 speech is to deny categorically that you ever made it."

—*From Harding to Hiroshima,* by Isaac Asimov

Soulless Perfection

As it now stands, students have powerful images of what a perfect body is and pursue it incessantly. But deprived of literary guidance, they no longer have any image of a perfect soul, and hence do not long to have one. They do not even imagine that there is such a thing.

—Allan Bloom, *The Closing of the American Mind*

The Shape of the '90s

Even if the conglomerate's reign as most-favored corporate form is over, a return to dominance by single-business/product companies is highly unlikely. Instead, we are witnessing the birth of a new, hybrid form of corporate organization, one that eliminates or minimizes the shortcomings of its predecessors while maintaining their strengths. The diversified corporation of the 1990s, in my view, will have a core business to which it devotes most of its attention and from which most of its profits come.

—Roberto C. Goizueta, CEO, Coca-Cola Co.

Two Nicenesses

Commenting on the report from a World War II tailgunner that George Bush's plane wasn't on fire when he bailed out, Democratic nominee Michael Dukakis said such things have no place in a campaign and "you don't fly 58 missions without enormous courage and tremendous patriotism." On the distaff side, Barbara Bush was saying of Kitty Dukakis: "I'd love to look like her if you want to know the truth."

—*Wall Street Journal*

U.S. Miracle

In the short space of time in terms of history—from 1787 to World War I—barely 127 years, our people developed institutions, industries, universal and advanced education, science and technology, medicine and the arts, in a way that was at least equal to most of the other countries in the world. And by World War II it is clear we had surpassed a good many others. How did this happen?

People who would have made little or no progress in their native countries, and who would have remained at low economic and educational levels, were able, because of the opportunities and freedom allowed here, to perform what historians have agreed was one of the miracles of history.

—Warren E. Burger, former Chief Justice of the U.S.

Democracy is a process by which the people are free to choose the man who will get the blame.

—Laurence J. Peter, in *The Portable Curmudgeon*, by Jon Winokur

N.Y. versus Calif.

California is the land of shamelessness. People migrate to Los Angeles for a single reason: *they want to do everything they're too embarrassed to do in Manhattan.* New York offers the tyranny of Good Taste; L.A. embodies the triumph of the garish, of candy-apple slobber and the conspicuous midriff. This is not necessarily a bad thing.

The Manhattanite lives in terror of a primary color or a visible label; the Los Angeleno is a happy billboard. People in L.A. actually have sex, because there's nothing else to do; in New York we have ballet tickets.

—*Spy* magazine

Nice about Awful

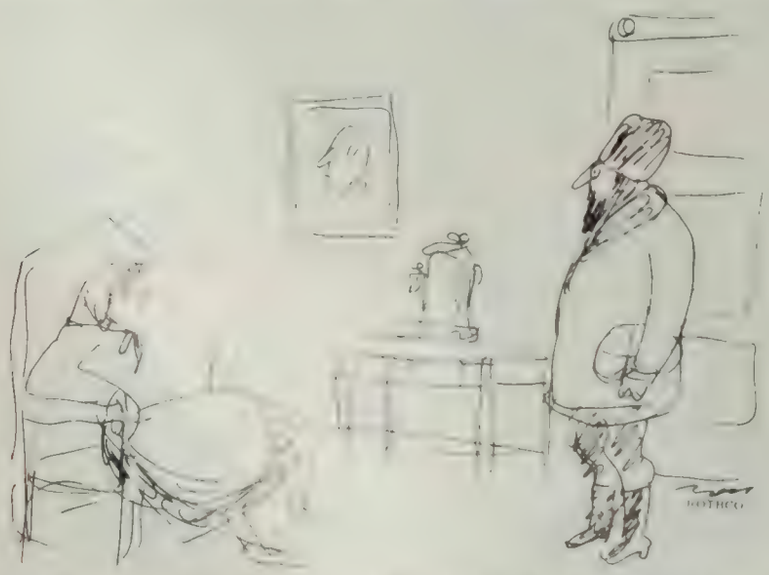
How does one compliment a loved one who has just given an abysmal performance? Noel Coward recommended to those who wanted to be both polite and honest a simple "incredible." I prefer W.S. Gilbert's sly tribute. He would shake his head with reverence, rapturously intoning "good *wasn't* the word."

—Benedict Nightingale, *New York Times*

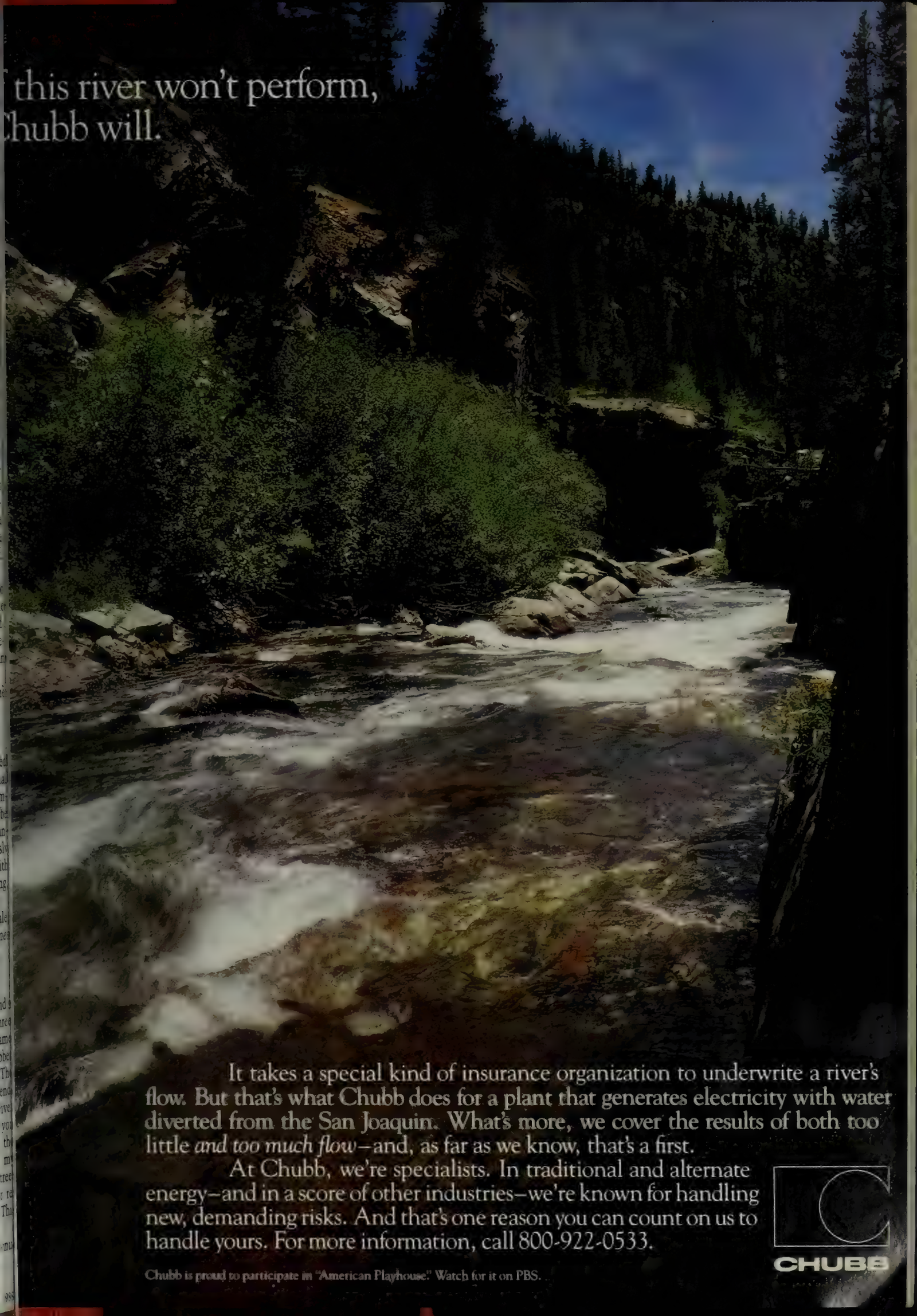
Fourth & Last Time

The man who robbed the David's Cookies store three times in three weeks returned, finding the same salesperson on the phone. The robber demanded: "Get off the phone." The clerk was talking to his girlfriend. He put his hand over the receiver and said, "I'm talking to my girl, you wait a minute." Then he told the assailant, "You're playing with my life. I've got friends on the street who can hurt you." The robber replied, "Don't worry about me. This is my last time."

—Ralph Gardner Jr., *On the Avenue*



"Get your own supper. I saw the whole of Red Square today!"


this river won't perform,
Chubb will.
It takes a special kind of insurance organization to underwrite a river's flow. But that's what Chubb does for a plant that generates electricity with water diverted from the San Joaquin. What's more, we cover the results of both too little *and too much flow*—and, as far as we know, that's a first.
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generation in business.

"There's an easy way out in anything. But the messages I'm getting from the top today say don't just buy what everyone else has —buy smart."

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And today it seems there are three key words in decision making. Justify, justify, justify.

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

THE VOLATILITY OF THIS ELECTION YEAR

was never better demonstrated than by the response to George Bush's acceptance speech, which will rank as a masterpiece for decades to come. The GOP is poised to win the White House again.

Even the Quayle selection has enhanced Bush's stature. In the face of red-hot criticism from the press (and even some of his staff), the candidate stood behind his beleaguered running mate with calm, convincing authority.

If Bush develops his acceptance speech themes during the campaign, he will triumph. Will he do so? The omens are mixed. He has skillfully made the issue of pledging allegiance to the flag into a symbol of the contrast between himself and Dukakis on defense and on values. Yet his waffling over deployment of a missile defense system was discouraging.

Peter Blakely/Picture Group

Another JFK?

While the Vice President was the outstanding speaker in New Orleans, there were several others of considerable note. Governor Tom Kean's keynote address was superb. He combined crowd-pleasing criticism of the Democrats with thoughtful ideas for coping with problems such as education and the inner cities. Should Bush lose, Kean will be a formidable competitor for the 1992 nomination.

The short talk of Representative Jack Kemp was considered by many one of the best of his career. If he can reestablish a political base in California or New York, he, too, will be an influential, constructive voice. Like Kean, he is one of the handful of Republicans who could show the party how to make significant inroads among minorities and wean away the so-called Reagan Democrats from their old party to the GOP.

The convention brass scheduled Jerry Ford after prime time. The former President surprised these skeptics with a rousing, persuasively positive review of George Bush's government service during the 1970s.

Senator Quayle may indeed turn out the opposite of the considerable liability he was originally perceived to be. Quayle ran for Congress in 1976 against a veteran liberal Democrat and won an upset. In 1980 he challenged a formidable incumbent senator and beat him. Critics say he merely rode Reagan's coattails. But in 1986, when most of those senatorial coattailers went down to defeat, Quayle was reelected by a landslide.

He has immersed himself in defense issues and has acquired considerable expertise in the Strategic Defense Initiative. He won high praise for his grasp of details during the INF Treaty debate. A couple of months ago, then an unknown junior senator, he debated Lloyd Bentsen on public television over the plant closing bill and bested his senior rival.

BUSH'S SECRET WEAPON

If there were a Nobel Prize for speech writing, Peggy Noonan would be the obvious winner. She was the chief architect of Bush's extraordinary acceptance address. She also drafted Reagan's moving speeches at Normandy and at the memorial service for the Challenger crew. The Bush campaign would be wise to make full use of her this fall.

John Madere

Eloquence is her trade

Demand for her services will be intense after the November election regardless of the outcome. But even a wordsmith as skilled as Noonan can't do much for a politico unless he possesses character and substance, which both Reagan and Bush have in abundance.

That point came home to this writer during the 1984 Democratic Convention in San Francisco. Gary Hart's speech to that gathering was a disaster. Among its faults was a clumsy attempt to sound like JFK. The audience grimaced. Ted Sorensen played a key role in putting together Hart's fiasco. With JFK, Ted Sorensen's efforts were masterful. But with a tinhorn like Hart, Sorensen failed. As he also did for himself when he ran for public office.

While there have been no confirmec sightings, some people believe thes creatures actually exist.

There are certain things in this world that you simply have to take as matter of faith. For example – if you're the client of a major financial institution that there really is someone up there at the top, pulling the strings.

The Loch Ness Monster.

Oh, you've heard rumors. Perhaps you've seen a grainy photograph in an annual report, or glimpsed a shadowy figure on the golf course. But in all honesty, have you ever stood face-to-face with the top management of your company's bank?

Well, if your bank were Continental, the answer would most probably be yes.

You see, we take a somewhat unorthodox approach to client service. Rath than viewing it solely as a staff function, we also consider it the sworn duty of the m and women in management – all of whom are assigned specific client responsibiliti

This philosophy finds its most avid practitioner in our chairman, To Theobald. By most accounts, he is eminently qualified for his title in every respe

© 1988 Continental Illinois National Bank and Tr

ut one: he seems to spend precious little time in his chair. In fact, he has been nown to devote entire days to visits with Continental clients. It is a habit that grat-ies his clients nearly as much as it exasperates his secretary.

Whether out of deeply felt conviction or enlightened self-interest, the est of our people have chosen to emulate our chairman's example.

The result, predictably enough, is a bank where service is given more than

Bigfoot.

The top management of a large bank.

p service, and where every piece of business is treated as if it were big business.

If you'd like to find out more about how the Continental philosophy might enefit your company, we invite you to talk to any one of our officers.

They really do exist. And if you'll take a moment to call (312) 828-6544, e'll be happy to prove it to you.

Continental Bank
A new approach to business.

A few observations about banks that try to serve both the consumer market and the business market.

Many banks, it seems, have a problem with direction.

It's not that they don't have any. It's that they have two—practicing the widespread belief that a bank can serve the interests of consumers and businesses simultaneously.

And well.

At Continental, we don't think a bank can have it both ways.

Oh, it may have been possible in simpler times, when the needs of the mass market and the corporate market were fairly congruent. But today, the ever-increasing complexity of your company's financial affairs demands intense concentration. Not only on your part, but on your bank's part, too.

Recognizing that fact, we at Continental have made the decision to divest ourselves of our consumer banking activities. Our business, henceforward, is business.

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What's Ahead for Business

Edited by Howard Banks

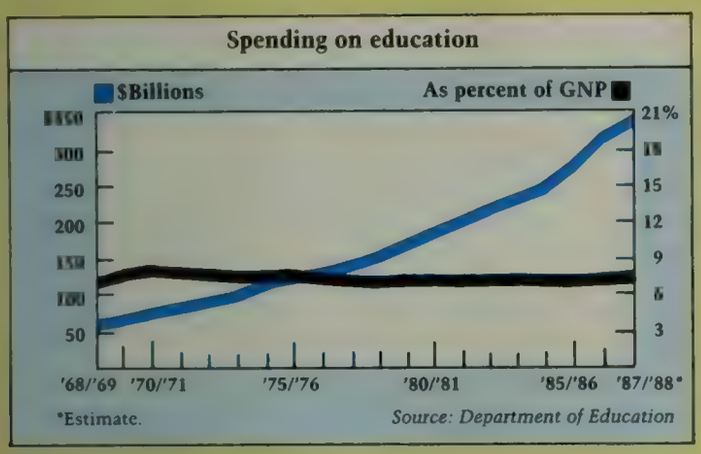
FOOTING THE SCHOOL BILL

Almost no one abroad outspends the U.S.

SPENDING ON EDUCATION IN THE SCHOOL YEAR just begun will hit an estimated $328 billion, 6.2% above last year's $308.8 billion.

That includes all public and private education above preschool. (It's hard to classify what often amounts to baby-sitting with finger painting.) About 7% comes directly from the federal government, earmarked mostly to help the disadvantaged and handicapped.

At 58.5 million students, enrollment nationally is up just 0.2% this year. Spending per elementary and secondary student ($4,810) will be 5.5% higher; for higher education students ($14,565), 6.5% higher.



As a proportion of the U.S. gross domestic product, education spending has been flat for 20 years. The estimated 7.2% of GDP to be spent this year is a slight improvement on the early 1980s, though a bit below the 7.5% peaks in 1970, 1974 and 1975.

Internationally the U.S. is proportionally outspent only by the Scandinavians (especially Sweden at 8% of GDP) and by Israel. Japan spends around 5.5% of GDP, most of Europe 5.5% to 6% (with West Germany at just 4.5%) and, says UNESCO, the U.S.S.R. around 6.5% of GDP.

Teachers' pay is up, too, but by less than it seems. Public school teachers' pay rose by 5.5% this year and last, and now averages $29,573. Starting pay is up in proportion, to an $18,400 average. But new teachers still get less than other graduates (examples: $21,500 for business administration majors, $24,200 for accounting majors, $27,200 for computer scientists and $29,700 for electrical engineers).

College and university faculties got substantial pay increases in the mid-1980s to restore in part the 20% decline in real terms that occurred in 1972-82. The process is, however, tapering off.

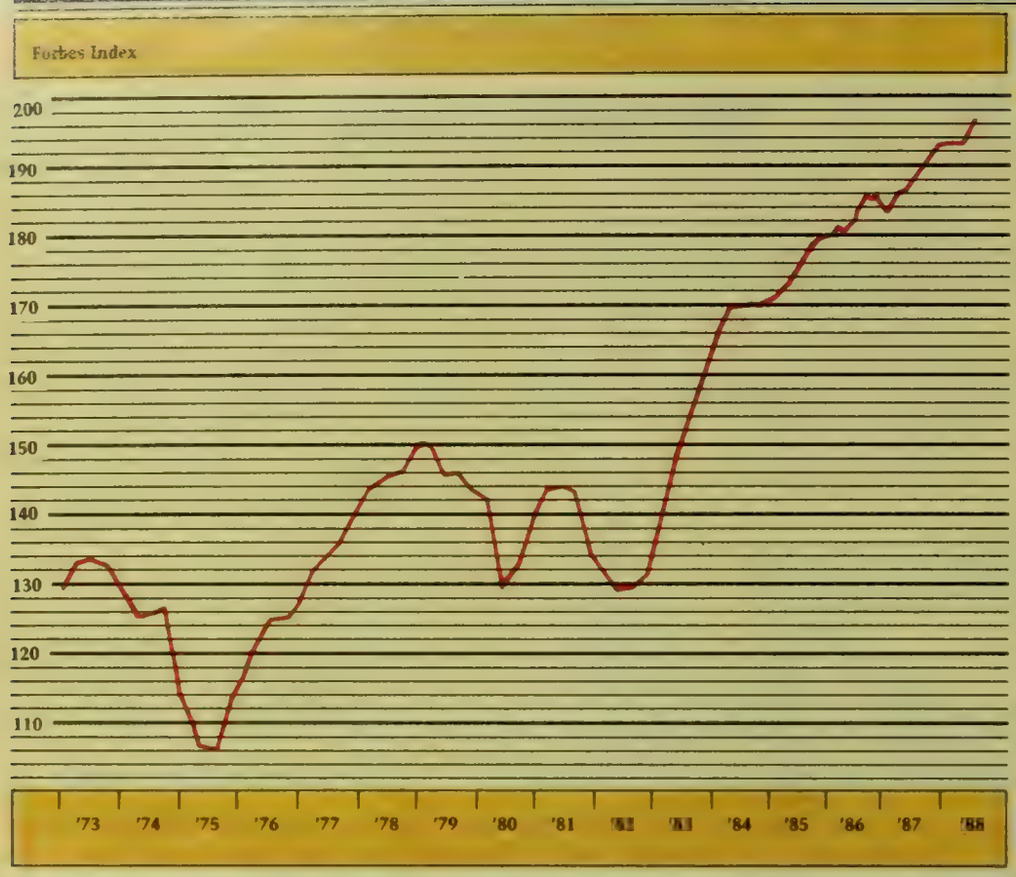
More dollars, yes, but what about higher quality?

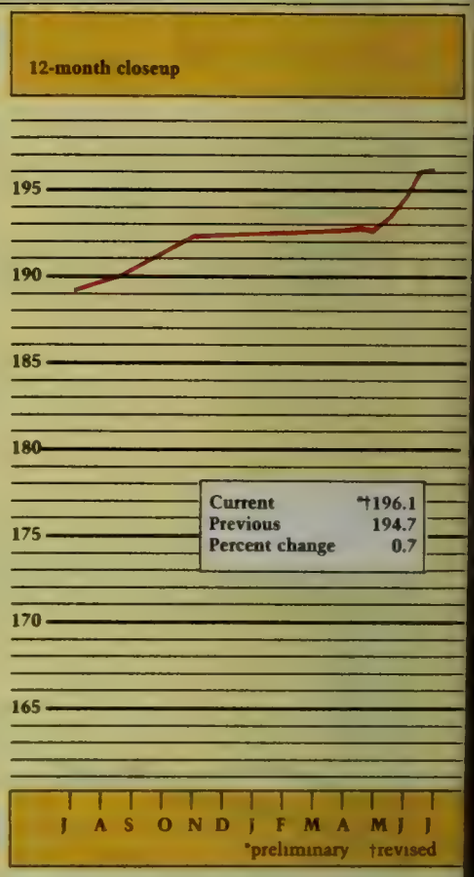
EDUCATION REMAINS A TOP SPENDING PRIORITY IN THE U.S. Compare it with defense spending, which got substantially more dollars in 1968, but almost 50% less ten years later. The gap has narrowed but is still about one-fifth in education's favor.

The controversial question, persistently asked by outgoing Education Secretary William Bennett, remains: Is the U.S. getting value for all this spending? Some is going to reverse the underinvestment of the 1970s in buildings and equipment. But a substantial part of the money goes to overhead, to pay administrators and support staff (who actually outnumber all classroom teachers).

Things like paying good teachers more, firing dunce teachers, encouraging excellence through magnet schools, seem to be having an effect (SAT scores are edging up minutely). Most parents-cum-taxpayers, however, understandably—and correctly—are fed up with kids who can't find South Korea on a map.

The Forbes Index





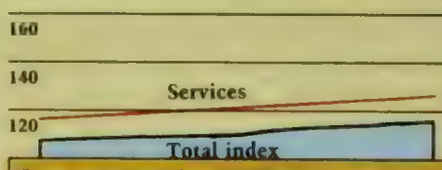
The heat is on. The revised second-quarter gross national product shows economic growth at a 3.3% annual rate, versus an earlier estimate of 3.1%. This is causing some concern that the economy may be expanding too rapidly. Industrial production jumped 0.8% in July as factory utilization, at 83.5%, hit an eight-year high. Personal income rose 1%, while the Consumer Price Index rose a modest 0.4%. However, the services component of the CPI was up 0.5%, and it is likely that the August figures for living costs will show even larger gains, attributable to rising food prices.

The one area that hasn't been particularly robust is new home construction. July new housing starts of 138,000 were off 7.2% from June and 9.4% from July 1987.

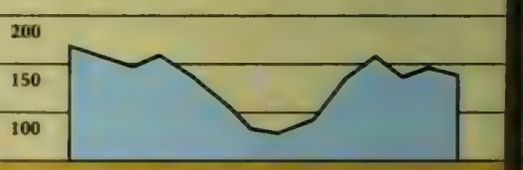
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

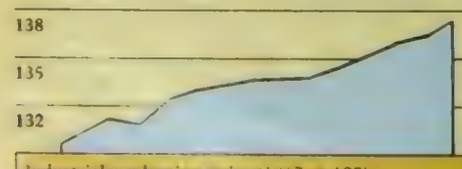
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



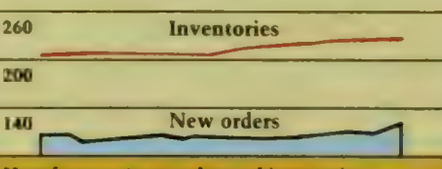
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)



New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)

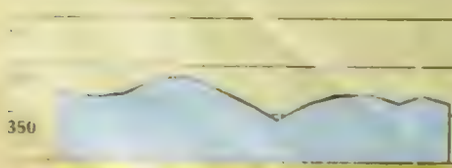


Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

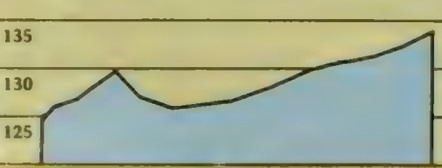


Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



[illegible] (Dept. of Labor)



Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

J F M A M J J J J A S O N D J F M A M J J J J A S O N D J F M A M J J

HE MAY NOT BE COVERED PROPERLY.

Suppose this statue had to be shipped to another cation.

What would happen if it was damaged in transit? Chances are the insured would discover the statue is missing something very important. Namely, thousands of dollars in coverage.

Because while certain policies may protect your operty while it's on your premises, after it leaves, it uld be stripped of virtually all protection.

With property and casualty needs becoming inasingly complex, it's not surprising that businesses e often unaware of gaps in their insurance proams. Last year, American businesses let millions of llars slip through those gaps. Which is why at CIGNA,'re constantly developing ways to reduce them. One way is with our business package policy. An ceptional policy we invented and sell more of than yone else. It enables us to tailor specific coverages and build them around the needs of your business. Coverages designed to close gaps. Like our transportation coverage, which would guarantee payment for a loss, even when the shipper of the statue isn't liable.

Furthermore, at the CIGNA Companies, we offer an array of business insurance products rarely available from a single insurer. All backed by strong claims service, experienced loss control specialists and one of the most advanced computerized risk-information systems in the industry.

Without the proper coverage, you could expose yourself to numerous unnecessary risks. Call your CIGNA company agent, check your local listings or write CIGNA Companies, Dept. R16, 1600 Arch Street, Phila., PA 19103 and learn how we can help fill in the missing pieces of your program.

CIGNA

Where was Michael Milken when Preston Tucker needed him? That's the question Francis Ford Coppola forgot to ask in his movie about the Tucker Torpedo.

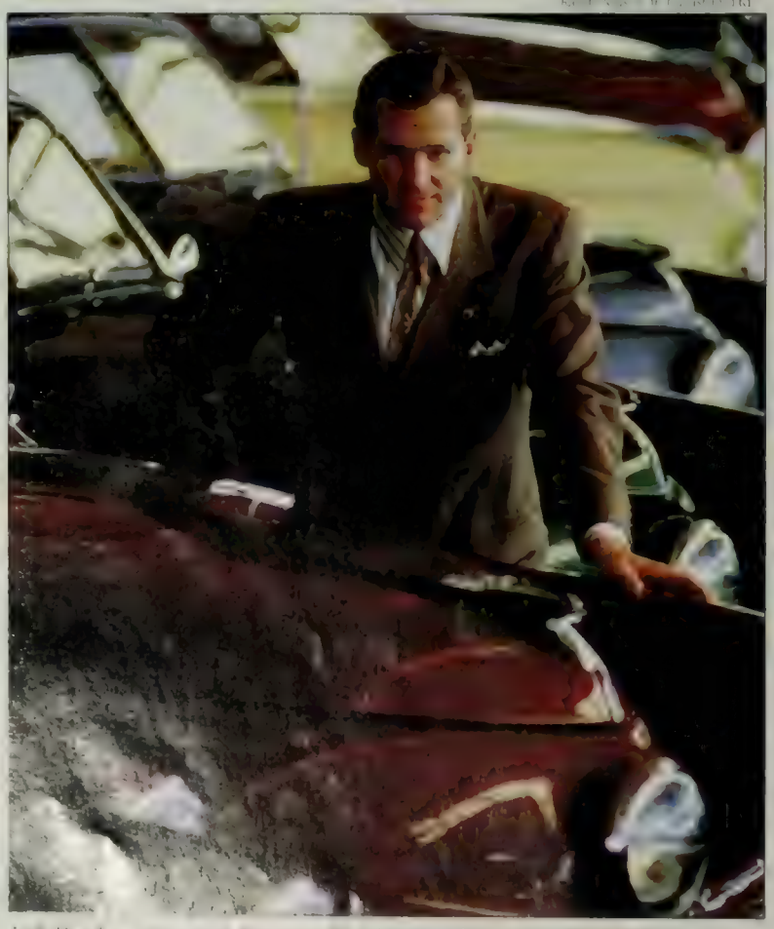
Wrong villain

By Jerry Flint and Vicki Contavespi

SOME YEARS AGO the story going around was about a pill, a new invention that would convert any car into a high-mileage machine. Pop it into the radiator and presto, 100 miles per gallon. But They, the auto companies, kept it off the market. A lot of people believed that fairy tale. A lot of people will believe anything, no matter how implausible, that bashes big business.

Some years ago movie director-producer Francis Ford Coppola's father told him that They had kept Preston Tucker from building that fabulous car, the Tucker Torpedo. Coppola grew up and built a movie around that little-guy-versus-big-guy fable. The movie is called *Tucker: A Man and His Dream*. It's a fairy tale, albeit an entertaining one. Unfortunately, it will persuade a lot of folks that big business is evil—whereas, in fact, the past decade has shown that little business can often kick the stuffing out of big business.

Preston Tucker never quite accused the Detroit automakers of doing him in, but he certainly hinted at it. He was too good a showman not to capitalize on that canard. "My car was too good," he said. After all, back then, seat belts, pop-out windshields, four-wheel disc brakes—which Tucker promised, although he didn't deliver on all his promises—and a sleek, aerodynamic body were still far in the future. "If it had gone into nationwide distribution, [the car] would have cost the automobile industry millions of dollars for restyling and retooling in order to keep up with the changes which we engineered into the Tucker," Preston Tucker concluded.



Jeff [illegible] Tucker in the Coppola film
Tucker was hounded, but not by Detroit.

For the record, and for those who will learn of Preston Tucker and his car only through the movie, there is not a scintilla of evidence that the industry or the big three ever went after Tucker, let alone scuttled him.

The movie hints, as did Tucker himself, that a Michigan senator, Homer Ferguson, "concerned with automotive interests," and a commissioner of the Securities & Exchange Commission, Harry McDonald, who had lived in Detroit, sank him with their investigations.

The truth lies elsewhere. Tucker counted on a public stock offering for the money to get started. In those days the SEC, still basking in the early glow of its regulatory powers, was if anything overzealous in regulating new security offerings. Preston Tucker had a

idea for a car and no money, and his only asset was a surplus war plant that he got for no money down. It was only natural that crusading SEC bureaucrats would want to look into the deal. (In fact, the government official who awarded Tucker the plant wound up on Tucker's payroll.) It's hard therefore to conclude that Senator Ferguson was persecuting Tucker.

What happened was that the SEC grabbed a headline or two by leaking damaging information to the press—some true, some not—which dutifully reported, accurately in this case, that Tucker's first showroom prototype was a cobbled-together machine that could not really run on its own. "Tucker Fraud Charged" screamed a *Detroit News* headline.

Has anything changed? Have bureaucrats stopped using leaks? Have reporters ceased picking them up?

The key players are dead now, but in retrospect it does look as though the government investigators knew very little about automobiles or how they were produced, and hounded Tucker in order to make their own reputations. Tucker was charged with fraud but acquitted by a jury without even making a defense.

As for big three conspiracies, recall that another maverick, Henry J. Kaiser, tried to break into the car business. He built 750,000 cars before folding in 1955. Did the big three hound him? General Motors shipped Kaiser its Hydramatic drives and gearboxes when a supplier's strike threatened Henry's whole operation. The difference between Kaiser and Tucker was that the former had money and manufacturing experience. Yet he too failed to break in. The costs of entry were higher than even Kaiser had imagined. After Kaiser went down, Henry J. himself said, "We expected to toss $50 million into the automobile pond, but we didn't expect it to disappear without a ripple."

That, of course, is what stopped Tucker more than anything: Money. He never had enough money. He managed to raise about $28 million from selling stock and dealer franchises, not nearly enough for the size operation he tried to build. The SEC charges probably kept him from raising more, but so did his own character—the exaggeration, the misleading statements, the shortcuts he took to convince the public that he had a production-ready car.

Each of some 50 Tuckers actually built was handcrafted. The one question that can't be answered is whether Tucker had a car that could have been produced on an assembly line scale with the features he promised. Good men have argued about that for 40 years. Tom McCahill, then a top car writer, said the Tucker "steers and handles better than any other American car I have driven." But John Bond, then the publisher of *Road and Track*, said the Tucker was catastrophic in many ways and that its inventor only proved that "a little knowledge about cars can be dangerous."

Why does anyone care, 40 years later, about a car that didn't make it? No one argues about a coffeemaker or a vacuum cleaner that fails. But cars are different, and whether Tucker had a good car or not, the body design by Alex Tremulis, whose name is still known among car designers, was a gem. Charles Jordan, the styling vice president of GM, saw a Tucker not long ago. "That car still looks good. A good design is a good design," he says.

In fact, that beautiful car body is probably as much a star of the movie as are the actors. Too bad that Coppola had to turn it into an antibusiness melodrama. If he wanted villains he might have gone harder after nit-picking bureaucrats and reporters who use leaks without evaluating them. Maybe, just maybe, if Reagan-type deregulation had been in vogue back then, and if Michael Milken had been around to raise money, the Tucker Torpedo would have gone into production. ■

UPI Bettmann

The real Preston Tucker and one of his cars in the late 1940s

He never had enough money, and his own character flaws put off investors.

Who owns our mighty mutual life insurance companies? In truth, no one. That seems to be why the problems at Equitable were allowed to get so badly out of hand.

The mess at Equitable Life

By Edwin A. Finn Jr.

ONE THURSDAY evening last April, in an executive dining room high atop the elegant mid-Manhattan headquarters of the Equitable Life Assurance Society, a half-dozen directors gathered for an extraordinary dinner meeting. This wasn't the full board; only members of the powerful Organization & Compensation Committee, all outside directors. Equitable's five top officers, themselves board members, were conspicuously absent.

The committee's leader, McGraw-Hill Chairman Joseph Dionne, was well aware of Equitable's deteriorating financial condition and the resignations over two years of no fewer than ten senior Equitable executives. After a 56% drop in profits in 1987, the capital base at Equitable, the nation's third-largest life insurance company, had eroded to $1.25 billion—a slim 2.5% of the company's $49 billion in assets. What's more, Moody's had just downgraded Equitable's claims-paying rating to AA3, putting the company three notches below rivals like Prudential, Metropolitan and Aetna.

Assembled around the table with Dionne that night were Don Johnston, retired chairman of the JWT advertising group; Winthrop Knowlton, a research fellow at Harvard's John F. Kennedy School of Government; Jewel S. Lafontant, a former partner at the Chicago law firm Vinder, Price, Kaufman & Kammholz; Eleanor B. Sheldon, former president of the Social Science Research Council; and Raymond H. Wittcoff, president of Transurban Corp. of St. Louis. The six decided the time had come to act.

Their verdict was delivered the following Monday morning. Equitable President John Carter, 54, was summoned to Dionne's office in the McGraw-Hill Building, just around the corner from Equitable. Neither John Carter nor Joe Dionne will say what happened in that session. But Carter likely came in for criticism, as did Equitable's chief operating officer, 55-year-old Leo Walsh. Indeed, by 5 p.m. that day, Walsh had resigned. As one high-level source put it, "After that meeting with Dionne, Walsh was gone and Carter was on a short leash."

The boardroom coup d'etat has thrust Equitable Chairman Richard Jenrette into the spotlight. Jenrette, 59, until recently an outsider, has been steadily increasing his profile since 1985, when Equitable bought his brokerage, Donaldson, Lufkin & Jenrette, for an estimated $460 million. Two years ago Jenrette took over as Equitable's chief investment officer, moving aside Leo Walsh, and last year was named chairman. Traditionally, the role of Equitable's chairman had been largely ceremonial—lobbying in Washington and speechmaking—while Equitable's president ran the company. All that has changed. Jenrette maintains direct power over Equitable's investment operations and has taken an interest in insurance sales as well.

Was Jenrette behind the coup? Was Joe Dionne simply fronting for him? Jenrette denies taking any active part in the outside directors' action. The fact remains: As Jenrette gained power, Leo Walsh lost power. While one cannot blame Walsh for the entire mess the company was in, there is little doubt that he wielded great power during the years when Equitable was getting into trouble. Leo Walsh declined to be interviewed by FORBES, but a portrait of him and his dealings at Equitable has emerged through more than a dozen interviews with current and former Equitable executives.

All agree that Walsh had worked feverishly and amassed awesome power in his 38-year career at Equitable, rising to the top from a position in the mailroom. He was also known, however, for putting his lieutenants into power and ruthlessly removing any who challenged him.

Walsh first made a name for himself in Equitable's pension department in the late 1970s. With inflation rising, standard life insurance policies were a hard sell. Walsh took up the slack by pushing guaranteed investment contracts (GICs). Through them he brought in billions of dollars from pension funds at companies like General Dynamics and General Electric. In return he guaranteed annual returns as high as 18%, with some contracts lasting as long as ten years. When interest rates dropped, Equitable was stuck paying these high rates while quite unable to generate that kind of return from the invested assets. Equitable lost some $200 million on its GICs in 1987, and much

Illustrations by Alan Reingold

the blame clearly rested at Walsh's doorstep.

While Equitable President John Carter had allowed Walsh to assume near dictatorial control of senior management in recent years, Carter himself was busy with such projects as a grandiose scheme to split Equitable into about 20 separate operating units. In addition, Carter put his stamp of approval on the construction of Equitable's $200 million art-bedecked headquarters, midway between the opulence of Rockefeller Center and the tawdry peep shows of Times Square.

Equitable's decline—before the board finally revolted—is a story of what can happen in a company whose management is, in fact, answerable to nobody but itself. Because mutual insurance companies like Equitable are owned by their policyholders, senior officials have no stockholders to account to. Yes, there are the policyholders, who are annually offered a vote on a slate of directors, but few exercise that right. Most mutuals are run by self-perpetuating oligarchies that, unless they foul up badly, remain in power indefinitely.

Equitable crossed the line. The situation had become so ripe that the outside directors—led by the feisty Joe Dionne—could no longer stand for it.

Joseph Dionne and the other five outside directors, distressed by Equitable's deteriorating financial condition, gathered privately in an executive dining room high atop the company's Manhattan headquarters. The time had come to act.

Yet, while Equitable's problems appear worse than those at any other major U.S. insurance company, there is no question the industry as a whole has been hurt in its headlong rush to compete with banks and brokerages in an age of deregulation. The most noteworthy casualties have been Baldwin-United and Charter Cos., which collapsed in the early 1980s after heavy losses on single premium deferred annuities. As the insurance industry has moved into riskier, interest-sensitive products, profits have been squeezed and insolvencies have become more common.

Equitable's problems date back to the early days of deregulation and rampant inflation. In fact, many of the guaranteed investment contracts now haunting John Carter were inherited from his predecessor, Coy Eklund, who stepped aside as Equitable's chief executive officer in 1983. If Carter can be faulted, it is for failing to recognize the GIC problem earlier and failing to take decisive action. When Equitable's board of directors made John Carter chief executive officer, they were putting a salesman in charge. Carter had married the sister of a prominent Equitable salesman in Connecticut in 1958, and over the next two decades worked his way up the sales ranks and into the home office. But there is more to running a giant insurance company than selling product. The money brought in by the salespeople must be invested well.

Several high-level Equitable executives who worked closely with John Carter agree: Despite the evidence of his Harvard M.B.A., the man seemed acutely uninterested in the financial complexities of his company. Into this vacuum stepped

Leo Walsh, up from the streets, smart and ambitious.

Walsh had put himself through St. John's University at night. He worked long hours and, during his years in the pension department in the 1970s, he often bragged that he could double Equitable's assets by selling guaranteed investment contracts. Like executives in the oil and gas industry—and indeed those selling GICs at other insurance companies—Walsh seemed to base his strategy on the inflation of the 1970s running on forever.

If anyone knew the danger of GICs, as some ex-Equitable employees now claim they did, they didn't speak up loudly enough to stop Walsh. In the early 1980s, leaving a meeting where Walsh had just made a glowing presentation to senior managment about the GIC business, one manager was heard to whisper, "Looks like Walsh snookered them again."

People were afraid of Leo Walsh. Some describe his tenure as a reign of terror. Between 1986 and early 1988, at least 6 of Equitable's 16 executive vice presidents quit or were forced out. The numbers were even greater at the senior vice president and vice president level. Anyone not loyal to the Carter-Walsh clique wasn't wanted. Many of those who remained soon found themselves with a Walsh appointee either directly over their heads or directly under them.

Adding to the tension was Strategic Planning Associates, a Washington-based consulting firm. An Equitable department head would suddenly find five young SPA consultants swarming around his operation, reporting their findings back to Walsh. These reports could be used to rearrange businesses to Walsh's liking and, some say, to silence would-be critics in the ranks. Over the past five years SPA has billed Equitable for an estimated $20 million. In 1986 alone the consulting firm conducted 19 studies, charging the insurer more than $[illegible] million.

The first major SPA initiative, launched back in 1983, called for splitting up the Equitable monolith. The stated intention was to make each unit individually accountable for performance. But short term, at least, the breakup was demoralizing and costly. Increasing the confusion was the breakup of Equitable's old headquarters on Avenue of the Americas: The real estate people were shunted off to Atlanta; the pension department went to Secaucus, N.J.; health insurance units moved to the old AT&T building; and marketing ended up near Madison Square Garden.

Neither Equitable President John Carter nor Joe Dionne will say what happened in their fateful Monday morning tête-à-tête. But as one high-level source says, "After that meeting, Walsh was gone and Carter was on a short leash."

If Walsh was a power-grabber, Carter seems to have been a bumbler. Take, for example, The Equitable Asset Management account, or Tea[illegible] which Carter arranged in 1983 wi[illegible] First Chicago. At the time, Mer[illegible] Lynch's Cash Management Accou[illegible] was wildly popular, and Carter wa[illegible] ed a competitive product.

The idea was to have Equitabl[illegible] 11,000-agent sales force push t[illegible] Team money market [illegible] count on their insurar[illegible] customers, with funds [illegible] be held by First Chica[illegible] Problem was, the ma[illegible] tenance fee on the [illegible] count was too hi[illegible] Also, the agents w[illegible] getting paid only ab[illegible] $50 to sign up a n[illegible] Team client. By c[illegible] trast, they would m[illegible] $1,000 or more for g[illegible] ting a client to put [illegible] money into a life ins[illegible] ance policy. An age[illegible] with a family to fe[illegible] couldn't afford to wa[illegible] time pushing Te[illegible] accounts.

Nevertheless, Ca[illegible] launched a mu[illegible] million-dollar test-m[illegible] keting campaign in C[illegible] orado, using advert[illegible] ments with stars such[illegible] Imogene Coca and [illegible] Caesar. In the end, Te[illegible] attracted only 70 [illegible] tomers, and more t[illegible] half of those were E[illegible] table agents, eager [illegible] show loyalty.

While the busin[illegible] was burning, Ca[illegible] seemed to be fiddl[illegible] His backing of Equ[illegible] ble's new 50-story h[illegible] quarters is a prime example. To l[illegible] panache to its semi-seedy locat[illegible] Equitable has been giving gro[illegible] floor space at reduced rents to t[illegible] eateries like Palio and Le Bernar[illegible] The new building reportedly w[illegible] way over its art budget, spending [illegible] million on huge pieces such as "[illegible] ral with Blue Brushstroke" by [illegible] Lichtenstein and the Depression[illegible] "America Today" by Thomas [illegible] Benton.

The new headquarters looks [illegible] full, but Equitable insists it is [illegible] leased, with many tenants sched[illegible] to move in soon. Equitable won't [illegible] what concessions it offered tenan[illegible] fill the building.

To be sure, the Carter-Walsh[illegible] gime did make some efforts to [illegible] costs down. In recent years they [illegible] about halved raises for many of E[illegible] table's lower-level corporate [illegible]

Meanwhile, loyal lieutenants were treated to lavish salaries and perks. One Walsh man, Raymond Colotti, had his office equipped with what's become known as "the $60,000 bathroom." Colotti was put in charge of Equitable Investment Management Corp., which invested in stocks and bonds. But after his appointment, several high-level managers defected to competing firms, perhaps because they felt their operation was coming under the control of Colotti's mentor, Leo Walsh. After four months, Colotti was shuttled off to a staff position. Several of the defectors returned to Equitable.

Another Walsh lieutenant, Thomas C. Gorman, was said to have pulled down a 100% bonus on top of his $175,000 annual salary. Some of Gorman's coworkers were amazed. Here was the man who in 1984 helped Leo Walsh arrange Equitable's purchase of Calvin Bullock, a dusty, old money management firm, for $16 million—far more than rival bidders thought it was worth. Gorman had also been in charge of the aborted Team campaign in Colorado. When Gorman left Equitable, he received a handsome severance package. (Gorman disputes this account but declines to elaborate.)

But who cared? It wasn't anybody's money that was being spent—since the capital and surplus of a mutual insurance company, in essence, belong to only the company itself. As long as the company's policyholders get their money when it is due, who is to complain?

In decades past, things got so bad at Equitable that people did complain. In 1952 Equitable's then chairman, Thomas I. Parkinson, was criticized in a New York State insurance department report and a series of articles in the *New York Journal-American* for steering Equitable business to an advertising firm owned by one of his sons and to a law firm in which his other son was a partner. He resigned two years later.

Equitable seems to have had a tendency toward this kind of self-dealing. Robert Barth is currently an Equitable executive vice president. While he was comanager of Equitable's Philadelphia sales agency in the early 1980s, Barth personally bought part of a Philadelphia software company called Ekta to help his agency sell its products. Before long, dozens of Equitable agents were using Ekta, meaning big profits for Ekta and Barth.

The arrangement has been terminated. Since he moved to Equitable's headquarters and took charge of the company's nationwide sales force in 1984, Barth says, the agencies have transferred their business to another software firm in which he has no financial interest. The question remains: Why was the arrangement tolerated in the first place?

After a 38-year career that began in Equitable's mailroom, Chief Operating Officer Leo Walsh tendered his resignation to Carter. Walsh made a name for himself selling guaranteed investment contracts, contracts that could cost the company $1 billion.

Perhaps none of this would have mattered greatly had not Equitable gotten into deep trouble over its guaranteed investment contracts. In a recent interview, Equitable officials estimated that the company has lost $600 million on guaranteed investment contracts over the past five years or so, and, depending on interest rates, may lose a further $400 million between now and mid-1990 when the losses are expected to end. In all, Equitable has more than $14 billion, nearly one-third of its liabilities, in the form of GICs.

Equitable has moved aggressively into junk bonds, partly to meet its GIC payments. FORBES estimates that the company holds between $2 billion and $3 billion in junk bonds, many issued by Drexel Burnham Lambert. Yields range from 12% to 16%. Besides holding junk bonds directly, Equitable has been investing through partnerships. In fact, one of the company's biggest single investments is a $427 million stake in a junk bond fund run by the Bass Brothers of Fort Worth, Texas.

Another setback has been Equicor, a health care joint venture Equitable launched with Hospital Corp. of America in 1986. Here, John Carter and Leo Walsh took Equitable's group health insurance business and folded it in with a bunch of HCA health maintenance organizations. The 50-50 deal looked great going in: Those HMOs had been showing profit margins of 10% back in the early 1980s. But with competition proliferating, margins have disappeared. Like so many others in the health care industry, Equicor got its nose bloodied as skyrocketing medical costs far outpaced premium income. With $93 million in losses last year, and a grim profit outlook ahead, Equitable's $200 million investment in Equicor is likely worth substantially less than face value.

Thus far, Equitable appears to have avoided the pitfalls of the real estate market. Many investors—including large insurance companies—have stumbled on investments in the depressed Southwest. Equitable itself has had a few minor scrapes: Last year the company sold off its part of a Dallas airport hotel at a loss of $4.7 million and disposed of its interest in an office complex in Irving, Texas, at a loss of $6.6 million. But overall, Equitable officials say their $20 billion of real estate holdings are worth substantially more than book value.

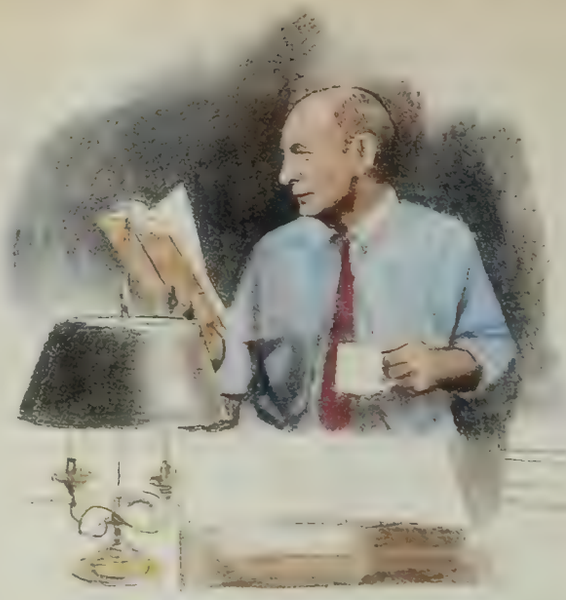
The last thing Equitable needs right now is another hit to capital—from real estate or anywhere else. Equitable's capital shortage has already forced the company to curb some promising new ventures. For example, under Carter, Equitable bought an Arizona life insurance company, Integrity Life, and used it to clone Equitable products and sell them through banks and brokerages. Equitable also formed a joint venture with Merrill Lynch, called Tandem Financial, to

push insurance through Merrill's broker network. Both were remarkably successful, bringing in billions of dollars of premium income in their first two years of operations.

But Equitable—strapped for capital—couldn't put the newly sold insurance on its books. Last year alone Equitable, largely due to its capital scarcity, had to sell off $1.7 billion of insurance business to other insurers. In the end, then, Carter's sales efforts benefited other insurance companies. This summer Integrity Life was sold to an Australian outfit. Merrill Lynch has upped its stake in Tandem from 25% to 65%.

The bottom line: Equitable's capital shortage will likely condemn this once-venerable institution to at least two more years of stagnant asset growth—and perhaps even outright shrinkage.

With Walsh gone and Carter's power apparently eroded, can Dick Jenrette straighten out the mess? Jenrette is a sharp contrast to the typical Equitable chieftain of the past. With Dan Lufkin and William Donaldson, he founded in 1959 the brash young brokerage house of Donaldson, Lufkin & Jenrette. The young trio proceeded to shake Wall Street by bringing their firm public, becoming the first New York Stock Exchange member firm to do so. There is speculation that Jenrette may want to do something similar at Equitable. If he straightens the company out, Equitable could try a public stock offering *(see box)*.



Chairman Richard Jenrette came into Equitable in 1985 saying he didn't know much about insurance. But he crammed, and passed his underwriter's exam in record time. Can he move as fast to straighten out Equitable?

Jenrette came into Equitable as softly as a cat back in 1985. "I don't really know the insurance business," he told people. But in fact he had begun his career in 1951 selling insurance for New England Life. As soon as he arrived at Equitable, Jenrette studied up and quickly passed his insurance underwriter's examination.

Jenrette has been working to solve a longtime problem at the Equitable: the schism between the investment and sales sides of the business. Randall Proctor, a former Equitable executive in New York and agency head in Raleigh, N.C., has been hired as a consultant to explain the GIC problems and other financial complexities to the sales agency managers around the country. For generations this 11,000-person agency force has been the proving ground for Equitable's future executive talent. By hiring elder-statesman Proctor, the company seems to be acknowledging that bringing in the money is not enough. Managers also must learn how to put it profitably and safely to work.

While pleading innocent to being behind the boardroom coup, Jenrette concedes that he is taking a more activist role than previous chairmen of Equitable Life.

He has his hands full. ■

Thin cushions

Many mutual life insurance companies would love to go the way of Wall Street: issue stock to the public. How better to raise the capital they need to book more insurance and to build new businesses in stockbroking and mutual funds?

New York just last month passed legislation to allow mutuals to convert to stock companies, which would enable institutions such as Equitable, Mutual of New York and Metropolitan Life to make public stock offerings should they choose to do so. Demutualizing, as the process is known, has proved costly and cumbersome in the past. Nonetheless, eager investment bankers are drawing up proposals to split ownership between new stockholders and the mutuals' current owners—the policyholders.

Clearly, the mutuals need capital. Essentially, capital is a cushion against unexpected risk; and regulators are reluctant to let insurance companies without adequate capital take on new business. There aren't yet any hard and fast rules, but on average the industry's capital-to-assets ratio is 6.6%. Some big mutuals, by contrast, have 4% or less *(see table)*.

Many people blame the capital shortage on the ragtag army of state regulators who have permitted some mutuals to operate on thin capital margins. Unlike the U.S. banking industry, where federal regulators have pressed for higher capital margins, the states have had little success. Critics say state regulators are all too often under the thumb of insurance industry giants. Even state officials concede their inadequacies. Says Kenneth Merin, New Jersey insurance commissioner, "It is important to make sure companies do have adequate capital, and this needs to be done at the federal level."

—Gale Eisenstodt and E.A.F.

The top ten U.S. life insurers

Company	Assets	Capital & surplus	Capital ratio
Prudential Insurance	$108.8 bil	$3.47 bil	3.2%
Metropolitan Life	88.1	3.01	3.4
Equitable Life	49.3	1.25	2.5
Aetna Life	45.7	1.22	2.7
Teachers Insurance	33.2	1.38	4.2
New York Life	31.8	1.85	5.8
Travelers Insurance	28.6	0.96	3.4
John Hancock	27.4	1.01	3.7
Connecticut General	26.8	1.23	4.6
Northwestern Mutual	22.6	1.04	4.6

Source A.M. Best Co

Campbell Soup Co. still makes the vegetable and tomato soups much as it did 70 years ago. That's one of its problems.

"We're not running the company for the stock price"

By Janet Novack

IT'S TRUE. THE SOUP is cooked the old-fashioned way at the dreary old Campbell plant in Camden, N.J. "We make it in big kettles like they did in 1910," says an unsmiling R. Gordon McGovern, chief executive officer of the $4.8 billion (fiscal 1988 sales) food company. "Your grandmother could walk through that plant today and in some places she would see it almost the way it was years ago; people pushing trays of carrots and then somebody dumping them into a big pot."

Nostalgic, yes. Efficient, no. McGovern realizes that: "Anything 50, 60, 70 years old is out of date."

What is not out of date is the affection and loyalty that consumers display toward the name. Campbell, according to one recent survey, remains the second most powerful brand name in America, ranked only behind Coca-Cola in consumer recognition and esteem. In addition, the company owns an enviable array of other strong brands, including Pepperidge Farm cookies and bread, Swanson frozen

Campbell Chief Executive R. Gordon McGovern and some of his products
He may be eating well, but what about the shareholders?

Ken kerbs

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In short, it pays for virtually everything bu gasoline. (An owner still has a few responsibi after all; so there's some inevitable fine print a negligence and accidents.)

Audi Believes The Joy Diminished By The Resp

The Audi Advantage also offers 24-Hour Roadside tance. A full decade of corrosion protection. welcome security at trade-in time. Thanks to a anteed Resale Index that certifies trade-in value. The result? The new 100/200 Series is as ding to own as it is to drive. And it is a joy to drive.

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Right down to the Audi Advantage.

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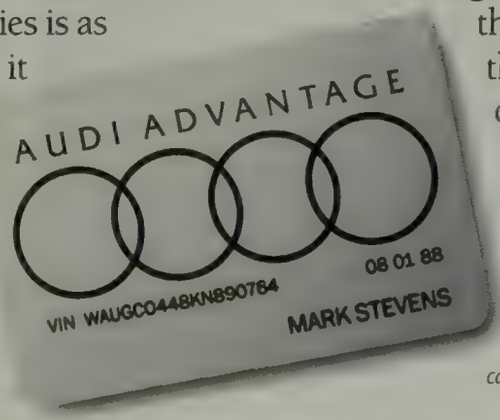
And that's a joy.



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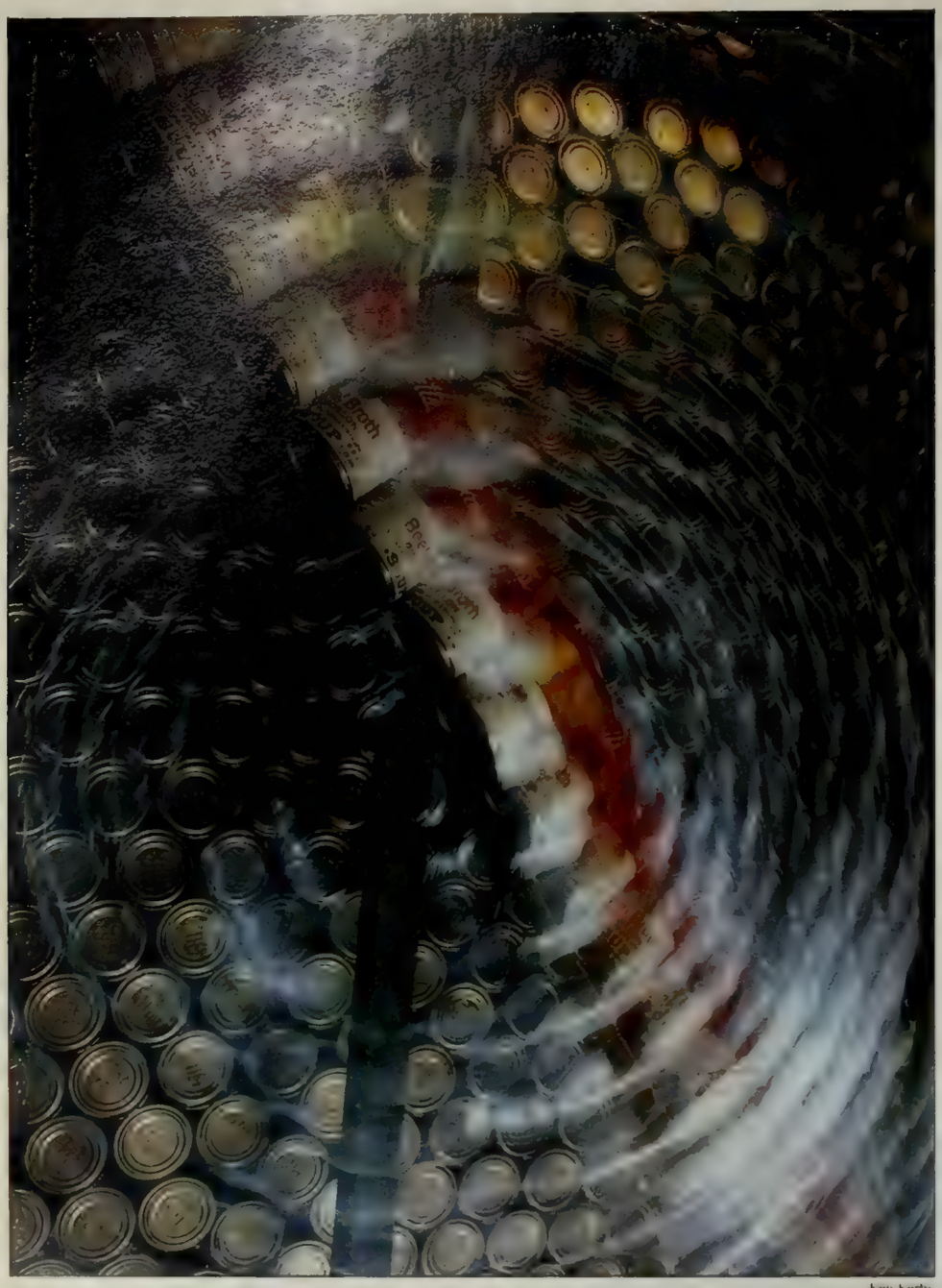


Ken Kerbs

Soup cans coming off Campbell's Camden, N.J. line
Losing market share, despite a powerful brand name.

foods, Godiva chocolates, Prego spaghetti sauces, Mrs. Paul's frozen fish, and Vlasic pickles.

Why then, with this kind of muscle, is it taking McGovern so long to modernize his company and meet his own financial targets? Eight years ago McGovern, who is now nearly 62, was brought in from Pepperidge to try to revitalize Camp[illegible] first he seemed to be do[illegible] things, decentralizing ma[illegible] ing a torrent of new [illegible] bell introduced more [illegible] between 1982 and 1987 [illegible] er food company) and throwing money into marketing. But [illegible] McGovern's moves had much [illegible] on the sluggish bottom line.

Back in 1981 McGovern set t[illegible] targets: an 18% return on equity [illegible] 15% annual growth in earnings [illegible] share. The actual numbers? Campbell's return on equity has been hovering around 15%, whereas the average for branded food companies is now more than 20%. More: During McGovern's tenure Cambell has yet to match, let alone best, its 1980 pretax margin of 10.1%. H.J. Heinz, for contrast, has nearly doubled its margins since 1980, from 6.5% to 11.9%.

Campbell's stock performance, except for a spurt early in McGovern's reign, has been rather mediocre. Recently trading at around 26¾, about 12.5 times estimated earnings for the [illegible]al year ended July 31, the stock has a P/E among the lowest in the branded food group. From the end of 1980 until [illegible] August, Campbell's share price [illegible]eased 252%, but that compares [illegible] a 402% S&P foods index gain and Heinz' 444% appreciation.

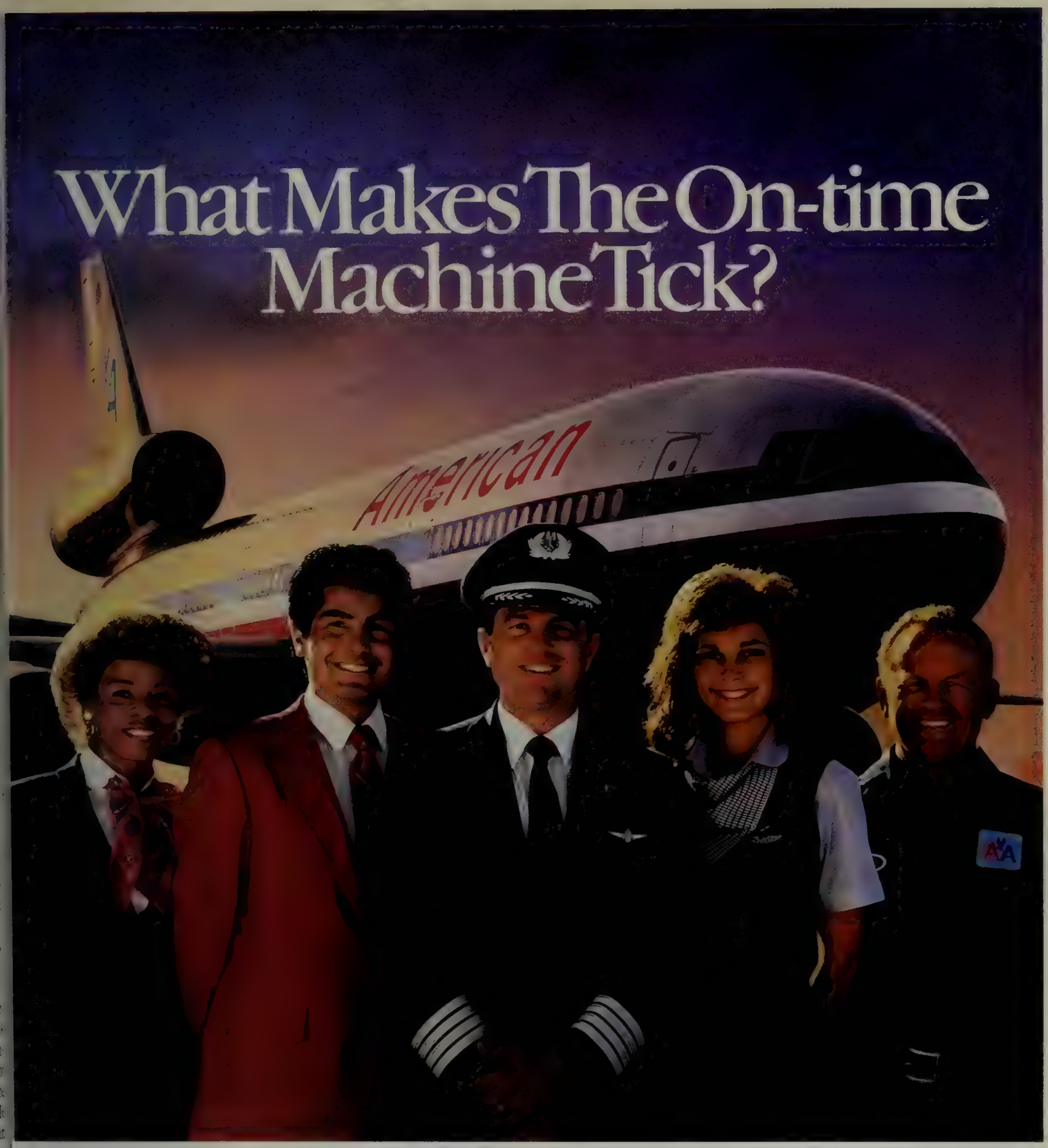
From McGovern, though, no apologies. "I wanted the sales up first and then I moved back into [working] the cost side," he says. To be fair, McGovern did quickly reverse a slump in actual unit sales. And now, though years behind such competitors as Heinz, he's focusing on Campbell's below-par return on invested capital. But he warns investors not to expect quick results. "That's part of the rub here. Some of the things that have to get done are not going to get done quickly. We're not running the company for the stock price," he sniffs.

Modest stock price, powerful brands, extremely low debt at 24% of capital. Normally that would signal a takeover target. But Campbell, at least for now, is no takeover play. On the contrary, it's a classic example of a public company run to suit the conservative style and long-term agenda of a controlling family. The Dorrances of Philadelphia's Main Line own 58.5% of the outstanding stock.

No wonder McGovern has little motive to jack up return on equity by more aggressive use of leverage. Says he: "This is 58% owned by a family who would like steady dividends and an appreciation of value. If you've got $7 million or $8 million coming in to you in dividends right now, what would you want to go out and get the thing hocked up for?" The Dorrances' majority block of stock, with a stock market value of more than $2 billion, brings in about $65 million in yearly dividends, split among nine families. On the basis of market value, that's only a 3% return, but it seems to be enough to keep the Dorrances happy.

Off and on, it's rumored the family will cash out. But John Dorrance Jr., 69, whose Ph.D. chemist father developed the process for condensing soup, says he believes his children, nieces and nephews will retain family control. John Dorrance makes no secret of his dislike of the kind of disclosure required of a public company. He stepped down as chairman in 1984 in favor of former AT&T Vice Chairman William Cashel Jr., but his influence is powerful. Dorrance says that when Campbell went public in 1954 he tried to avoid public reporting of quarterly results. He would still prefer McGovern not talk too much about goals. Dorrance isn't hiding anything; he simply has a limited view of accountability and a disdain for Wall Street's interest in quarterly results.

McGovern insists the pace of progress has been fine, considering how much needed to be done. It's hard to agree. After introducing two highly successful lines (Le Menu frozen din-



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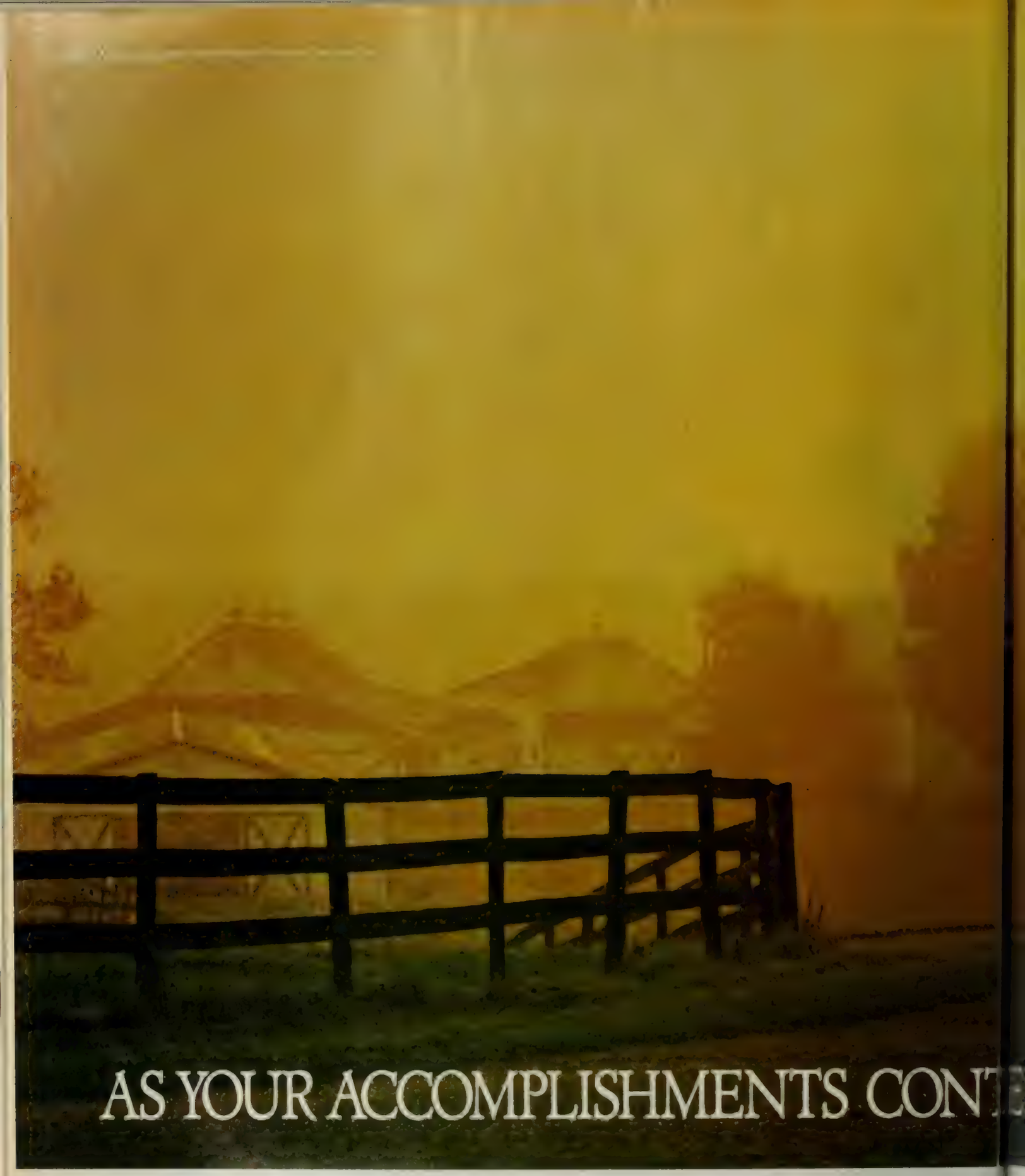

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Ken Kerbs

Patrick Holmes, Camden condensed soup product manager
"A year ago we were manufacturing our own tin cans."

ners and Prego spaghetti sauces) in the early 1980s, Campbell lost tens of millions by rushing to market ill-conceived or ill-executed products, while neglecting core businesses, including soup. Among its biggest flops was Fresh Chef, a line of refrigerated salads, soups, and sauces with limited shelf life. The line was plagued by distribution and packaging problems. "We said 'new products are the keys to the kingdom.' We made a mistake taking our eye off our basic business," admits Herbert Baum, president of Campbell U.S.A. with about 65% of Campbell's sales.

Whatever the reason, Campbell missed the most significant new soup line in decades, Japanese ramen noodles, a dry mix that is cooked in boiling water to produce a tasty broth thick with long noodles. After a little more than a decade on the market, these soups are slurping up 15% of the total market. Campbell's share of the soup market (it still has 84% of canned) has fallen to 62% from 82% a quarter-century ago. Only now is Campbell test-marketing its own ramen entry, Noodle Nest.

By placing renewed emphasis on its core businesses, Campbell managed to post a 2% unit gain in soup sales in its 1988 fiscal year, partially reversing an ominous 5.5% unit slide in 1987.

Yet a real resurgence in soup, McGovern says, won't come until it is repositioned as a "casual, snacking" food as well as part of a balanced meal. To do that, Campbell must perfect an inexpensive, easy-open microwaveable container that will double as a soup bowl. Rollout of that line probably won't come before fiscal 1990. Another bid at boosting soup with the fast-food crowd—the "Souper Combo" frozen, microwaveable soup and sandwich combination—is in test markets and unlikely to go national this year.

So problems are being addressed, but slowly. Baum concedes, for example, it took 18 months from the time he proposed closing Campbell's antiquated Chicago soup plant until he was able to win board approval. One apparent reason for this slowness is commendable enough: The Dorrances hate to lay off workers. "We like to give six, nine months advance notice to workers," says McGovern, who estimates the company's plant paring is only half done. Nevertheless, the old plants are doomed, and delaying closure is costly for shareholders—not all of whom are as affluent as the controlling family.

In addition to closing plants, McGovern is finally cutting headquarters staff and overhead and studying more efficient production techniques. McGovern has placed product managers in the plants to nail down savings. "A year ago we were manufacturing our own tin cans," notes Patrick Holmes, the product manager for condensed soup at the Camden plant. Now Campbell buys two-piece cans from a supplier rather than making its own outdated three-piece cans.

Campbell, too, has finally forged a coherent strategy for building a more profitable business out of its mishmash of foreign holdings. But, again, this seems to have taken an inordinate amount of time. In its largest acquisition ever Campbell has just paid $230 million for Freshbake, Britain's third-largest frozen-food company. That, at least, put an end to a major embarrassment: Campbell had built a shiny $20 million plant in England that was grossly underutilized. Campbell's market share in Britain was a fraction of the plant's capacity.

The best evidence of what can be done at Campbell, if executives feel a sense of urgency and can break old habits, comes from the $500-million

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plus (sales) Pepperidge Farm unit that spawned McGovern. Pepperidge is based in Norwalk, Conn., far enough from Campbell's Camden headquarters to give the baker a more agile style. In 1984 Richard Shea, who had been running the grocery unit, took over Pepperidge, with a mandate for change. He promptly reduced inventories, closed plants, cut the work force nearly 10%, and culled hundreds of marginal items from the product line—a step Campbell U.S.A. is only now taking. Shea equipped his 2,500 distributor/salesmen with hand-held computers and sliced factory-to-store delivery times.

Results? Pepperidge's share of the total cookie market is up to 6%, from 3.5% at the start of Shea's tenure—and that 6% is at the more expensive, somewhat more profitable adult end of the market. Cookie unit sales grew about 18% in fiscal 1988; bread was up 1.5%. Pepperidge now contributes about 12% of Campbell's operating earnings, up from under 9% in 1985.

New products? Shea's biggest score is the expensive ($1.99 for eight) American Collection cookie line—soft, lumpy cookies crammed with chocolate, nuts and calories. A line of microwaveable, frozen single-serving American Collection desserts is also nearly national. Print ads for the $1.29-a-serving Newport Hot Fudge Brownie tout it this way: "Attractive, rich and single."

Attractive, rich and single. That the company is, and it is likely to remain that way given the Dorrances' tight control. But over 40% of the stock is in public hands, and the board cannot ignore the interests of the minority shareholders indefinitely. Rumors surfaced recently in the *Wall Street Journal* that the board, discontent with McGovern's performance, had offered his job to an outsider. The truth seems to be that the board is looking ahead three years to McGovern's retirement and is searching both internally and externally for his successor. "It's too much of a job, I think, for one person," Dorrance says, adding that he thinks an apprenticeship period for McGovern's successor (before McGovern retires) is desirable. Whoever the successor may be and whenever he claims the job, it might be a good idea for the Dorrances and the board to put more pressure on him for improved performance.

Campbell so far has been extremely lucky: It is blessed with an unusually powerful brand-name lineup; powerful enough, in fact, that the company, up to now, has been able to recover market share when it blundered. But this is an industry where competition is getting even tougher and margins will be shrinking. Big, savvy European companies like Marks & Spencer and Nestlé are increasingly serious about the vast and tasty American market. Campbell has not had to pay a heavy price for its sometimes sluggish management—as have similar companies in other industries. But it cannot remain so insulated and stay so lucky much longer. ■

Nine years ago Iran's shah sank over half a billion dollars into West Germany's giant steel company Fried. Krupp GmbH. Talk about making terrible investments.

The shah's last laugh

By Peter Fuhrman

IN THE WANING DAYS of the Gulf War, as the Iraqis began their successful counterattack against the ayatollah's armies of adolescents, two senior Iranian politicians traveled to Essen, West Germany. Their mission: to demand higher dividend payouts from Fried. Krupp GmbH, the 177-year-old German company that armed Hitler and the Kaisers.

Three years before he was driven from Iran by Ayatollah Khomeini in 1979, Shah Mohammad Reza Pahlavi paid $550 million for 25% of the big but doddering holding company that is the industrial anchor of the German Ruhr. The shah also anted $140 million for shares in Krupp's German and Brazilian steelmaking subsidiaries. Even today, Krupp represents Iran's largest foreign equity holding.

The shah, who died in Egypt in 1980, got the last laugh on the ayatollah with the Krupp deal. Despite the pleas of the two Iranian board members who traveled to Essen last spring, Iran's share of Krupp's 1987 dividend amounted to just $1.5 million, down 75% from 1986. During the eight-year-long Gulf War, Krupp's total dividend payments to the Iranian government came to less than $17 million—a pathetic return on Iran's half-billion-dollar investment. The Iranians registered their dissatisfaction by refusing at a June board meeting to endorse the performance of Krupp management. Such an act of public defiance is rare in Germany.

The Iranians, it appears, were lucky to get anything. Krupp is no longer a big munitions manufacturer. Once the largest industrial firm in Europe—and still West Germany's 14th-largest industrial firm—Krupp has seesawed in and out of profitability since 1967. Some divisions, like shipbuilding, have been scrapped. The British company Lonrho Plc. recently bought a stake in Krupp's faltering trading company. But, according to bankers and others with a close knowledge of the company, Krupp's losses are so widespread they can no longer be contained through isolated asset sales.

Krupp was badly—perhaps fatally—weakened by a 1987 steelworkers' strike and losses in its main steel and plant construction businesses. Krupp had to draw down its reserves and step up its borrowing from German banks. Krupp's working capital fell by 65% last year as debts grew to nearly twice equity. (The Krupp shares not owned by Iran are held by a foundation established in 1967 by Alfried Krupp, the last family member to run the firm. Krupp, convicted at the Nuremberg trials of war crimes, was released from prison in 1951 and remained the sole proprietor of the firm until his death in 1967.)

What had happened to the shah's cash infusion? Krupp mostly squandered the money on propping up its overstaffed and inefficient carbon

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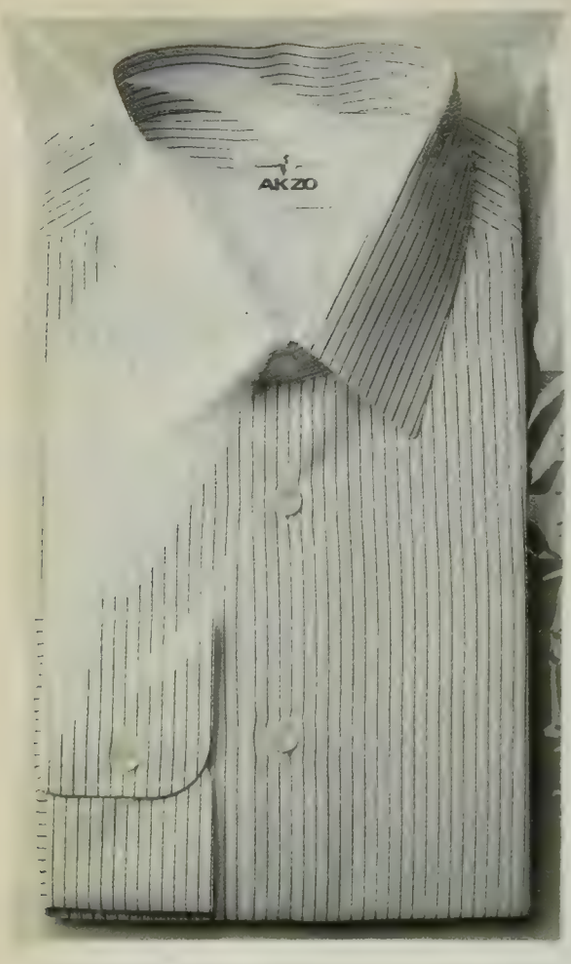

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steel business and on ill-fated attempts to expand Krupp's shipyards and turnkey plant sales.

Last year, on sales of $7.7 billion, Krupp reported net income of $22 million, down 67% from 1986. But even that result looks suspect. In 1987 revenues were down in all its main operating divisions. There were huge losses, estimated at up to $250 million in the troubled plant-building division. According to German analysts familiar with the company's finances, Krupp was able to record a net profit in 1987 only by using permissive German accounting standards to defer much of this loss and draw heavily from diminishing hidden reserves.

The Iranians can blame themselves for some of Krupp's problems. In 1981 the Iranians tried to force Krupp to abandon plans to lay off 5,000 workers, saying that "throwing workers onto the streets out of capitalist motives" was not consistent with the aims of the Iranian revolution. Such obstructionism contributed to Krupp's reporting a year-end 1981 loss of $16 million.

But Krupp's largest problem is of its own making. The company has been too slow in closing down or restructuring its loss-making divisions. As it begins this belated process, it must confront powerful German unions and enormous mandated benefits that German governments have for years been saddling their companies with. Consider: In December 1987 Krupp announced plans to close down its 94-year-old Rheinhausen steelworks in the Ruhr village of Duisburg. The mammoth Rheinhausen plant, the only Ruhr steel mill to escape Allied bombing during World War II, is losing over $1.5 million a week. Germany's metalworkers' union, backed by the local government in North Rhine-Westphalia, fought Krupp's effort to shut the plant and lay off its 5,000 workers.

The company finally worked out an agreement to close down the plant by 1990 but reassign 2,000 of its workers to a nearby plant owned by Mannesmann, the German machinemaker. This should lower the cost of closing down Rheinhausen. Even so, Krupp's redundancy payments and write-downs will still likely exceed $400 million. The company also acceded to union demands to further inflate its bloated work force by creating up to 1,500 jobs to replace those lost at Rheinhausen. Krupp intends to perform this neat trick by shoehorning workers into one of its few profit-making factories. This is the type of self-defeating solution to an overman

Barry Jackson

ning problem that wins medals in the Soviet Union.

The only moneymaking part of Krupp's steel business is its production of stainless steel. But now this business is threatened by a European Commission investigation into illicit price-fixing launched in May. Krupp, along with six other European stainless makers, faces huge fines if found culpable.

Presiding over this crumbling enterprise is Berthold Beitz, Krupp's 74-year-old chairman. Placed at the company's helm by Alfried Krupp in 1967, Beitz these days busies himself mostly with intrigues against other Krupp managers. This spring, according to members of the Krupp board, he tried to oust Krupp's chief executive, Wilhelm Scheider, 60. Krupp's creditors, holding $1.5 billion in company debt, stepped in to save Scheider's job.

The Gulf ceasefire has, for the moment at least, quieted the Iranians and staved off a financial crisis at Krupp. But now, according to Krupp board members, the ayatollah's agents are hinting they'd like to sell their Krupp shares, probably for a pittance. Who can blame them?

On the other hand, who will buy from them? ■

Club Med, one of Wall Street's darlings not long ago, today shows middle-age spread.

Trouble in paradise

By Richard Phalon

CLUB MED, THAT once lusty purveyor of packaged sea, sand and sun vacations, is slipping into middle age bearing all the signs of an identity crisis. There are times when an income statement can be more unforgiving than a mirror.

Five years ago Club Med Inc. (the Big Board-listed, 73%-owned subsidiary of France's Club Mediterranée S.A.) was generating good earnings gains and a snappy 20% return on equity from what seemed to be a surefire formula: the sale of fantasy moments to beautiful young people in a garland of exotic "villages" stretching from Polynesia to the Caribbean.

Trouble in this paradise began to show last year. Club Med's net dropped from $1.27 to $1.19 a share on a sales gain of 9.8% (to $370 million). Return on equity was a thin

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9.7%. This year has been more of the same: Sales were up 10% (to $232.4 million) in the six months ended Apr. 30; net was down 25% (to $1.10 a share). A disenchanted stock market, which had boosted Club Med to a high of $32 after the French parent floated it at $17 four years ago, is currently pricing the subsidiary at around $14.

With a broad Gallic shrug, Club Med President Jean-Luc Oizan-Chapon dismisses the downturn as no more than a spell of bad weather. "In business you take the risk, you cannot control everything," he says. Oizan-Chapon proceeds to tick off some of the uncontrollable risks. Two major factors: political unrest, which led to the shutdown of the Magic Isle village in Haiti and zapped occupancy rates in New Caledonia, and construction problems, which delayed the opening of a big new unit in Huatulco, Mexico for months. The Mexican misadventure alone may have cost Club Med as much as $7 million in customer reimbursements and debits. That amounts to just under half the company's net in the first six months of this year.

But Oizan-Chapon did not mention the biggest risk of all: demographic obsolescence. For both Club Med, which operates from New York, and its parent, Club Mediterranée, which operates from Paris, the prime market is maturing with the graying of their European and American customers. That means fewer swinging singles to respond to the siren song of white sands, thatched roofs and casual states of dress and undress.

Further, Club Med's island-hopping, all-inclusive packaging theme has been widely copied. With more competition battling for fewer young vacationing bodies, Club Med's selling costs rise.

"Only part of the market is maturing," Oizan-Chapon insists. "Part of it is growing." The growth, from a comparatively small base, is coming from Asian customers, many of them Japanese with the heavy yen to spend. But that is more than offset by the graying of the company's most important market: the U.S. and Canadian customers who last year booked about 60% of the hotel days that Club Med sold.

"We are following a life cycle plan," responds Oizan-Chapon, who started his climb through the management side of Club Med more than a quarter-century ago, as a village "G.O." *(Gentils Organisateurs)* sports instructor. He has broadened his marketing pitch to couples, and especially couples with children, by adding Mini Clubs (for children ages 2 to 11) and a Baby Club (ages 4 months to 23 months) to 7 of the 34 resorts Club Med owns, operates or manages. "You want to vacation with your child, but you want to live your own life, too," says the Club Med president.

The care and feeding of the young is not a freebie, except for a couple of off-season months at the Eleuthera and Ixtapa villages. The rate varies with age and location, from around $280 to $490 a week, plus basic individual adult rates that in the peak Christmas season get as high as $1,450 a week, not including airfare and membership fees.

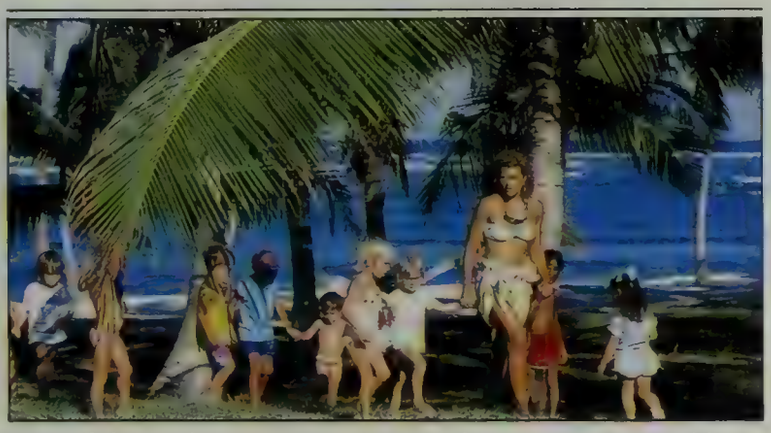
These prices have been going up to compensate for an ambitious renovation and building program that has remade a sizable chunk of Club Med's capacity from the traditional "village" model to something a lot closer to conventional resort hotels. Capital spending over the last four years added up to more than $180 million, or some $20 million more than Club Med's total assets in 1983.

The scale of the construction testifies to what Oizan-Chapon himself concedes to be "an image problem." The new Sandpiper at Port St. Lucie, Fla., for example, tied to 45 holes of golf and side trips to nearby Disney World, may go big with the over-35 set. But how will it sit with the raging hormones of 20-year-olds, who tend to fantasize about Club Med weeks through the haze of *Animal House*?

Travel agents who sell a lot of Club Med vacation packages—Marie Dempsey of Wanderlust Travel in Raritan, N.J., for one—think the company is having a lot of trouble selling itself to older people in an increasingly competitive market. Says Dempsey: "The idea of free sex and a lot of drinking really turns off the older, more sophisticated people Club Med is trying to reach." ■

Joanna McCarthy

Club Med's Jean-Luc Oizan-Chapon
"We are following a life cycle plan."



Mini Club members at Punta Cana in the Dominican Republic
All the signs of an identity crisis.

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New Zealand investment banker Michael Fay
Finding loopholes—in bank regulations and Cup rules.

I Bich/Sygma

Michael Fay, the feisty New Zealander who's out to win the America's Cup, made his money bucking his country's hidebound establishment.

A disruptive influence

By Katherine Weisman

NEW ZEALAND's gross domestic product is only $40 billion, and its financial markets are capitalized at just $30 billion. How rich can you get in an economy like that? Rich enough to compete in the America's Cup race in San Diego this month, as Michael Fay plans doing.

Michael Fay, now 39, is a law school graduate who worked for a time at Auckland's Securitibank. He was fired, he says, for being a "disruptive influence," and he has made a career out of disrupting things ever since. At the bank Fay met David Richwhite, now 40, a fellow employee who joined him in 1975 in setting up Fay, Richwhite & Co., an investment banking firm.

New Zealand is a sleepy place, and the financial markets were almost somnolent. At the time, all interest rates in New Zealand were controlled except those on commercial paper. Fay, Richwhite exploited that loophole, raising money for customers via commercial paper for projects ranging from hotels and marinas to kiwi fruit farms and deer farms. The more established outfits, such as the National Bank of New Zealand, "sat back and watched," says Richwhite. Only when they saw business vanishing to Fay, Richwhite did the pompous bankers wake up and compete. By then the young partners were well established.

Fay, Richwhite's big chance came in 1984 when New Zealand's new Labor government decided to deregulate the economy. The New Zealand economy had been tightly controlled; the previous conservative government had lived happily with a near-socialist system. While diverting his left wing with attacks on "U.S. imperialism," Labor Prime Minister David Lange allowed brilliant Finance Minister Roger Douglas to move the economy to the right. Douglas abolished interest

The Cup controversy

New Zealand's first entry ever into the America's Cup race, *Kiwi Magic,* had the most wins on record for any elimination series before it lost to Dennis Conner's *Stars & Stripes.* That was last year in Fremantle, West Australia. Beaten by Conner, New Zealand and Michael Fay, who chaired the entry, thus missed the chance to confront the Australian *Kookaburra III* for the Auld Mug.

Stars & Stripes, of course, won the Cup, but the San Diego Yacht Club, Conner's sponsor, failed to follow custom by announcing plans for the next race, as the winner had always done before. The sporting world waited, assuming the next race would be in about three years and that it would be between 12-meter yachts, the kind used since 1958.

But Michael Fay wasn't the kind to sit around and wait for somebody else to do something. His lawyer went to work poring over the 19th-century Deed of Gift, which outlines the rules governing the America's Cup. The lawyer reported that the winner of the Cup (the Defender) doesn't necessarily determine the details of the next race and that any Challenger can initiate a challenge.

Margherita Bottini/Wheeler Pictures

Cup Defender Stars & Stripes

That was just what Michael Fay had wanted to hear. In July 1987 he issued his own challenge on behalf of the Mercury Bay Boating Club. Instead of a 12-meter (40-foot waterline, about 65 feet), Fay chose a much larger sloop (90-foot waterline, length about 132 feet). And instead of the usual three or four years between matches, Fay wanted to race this past spring.

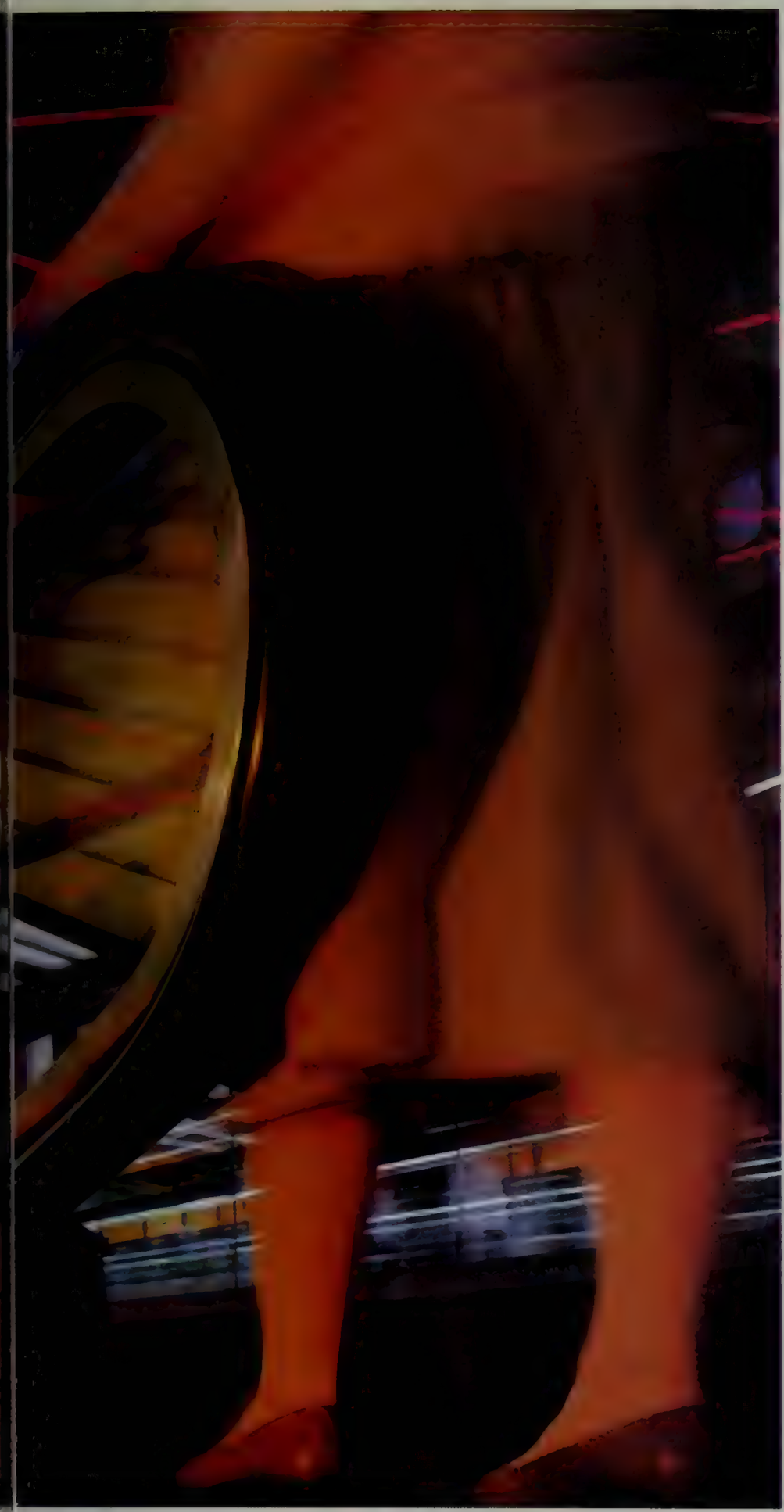
The challenge was ignored by the San Diego Yacht Club, so Fay took the issue to the New York State Supreme Court, which has jurisdiction over the Deed. Judge Carmen Beauchamp Ciparick ruled Fay's challenge fair and ordered the San Diego Yacht Club to set a race date or forfeit the Cup.

San Diego announced in January that it would race in September, but it said it will use one of two catamarans. One of these crafts has a carbon fiber wing to catch the wind and is 60 feet long.

Fay again went to New York State Supreme Court disputing the "fairness" of the San Diego Yacht Club's boat design. On July 25 the judge sidestepped the design question and ordered both teams to the race course. It will be a best of three series on Sept. 7, 9 and 11.—**K.W.**

I. Bich/Sygma

New Zealand, the 132-foot challenging yacht with 39-member crew and 15-story mast



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UNITED TECHNOLOGIES

Daniel Forster/Duomo

David Richwhite, Michael Fay's investment banking partner
He's running the store while Fay chairs the Challenge.

rate controls, credit guidelines and reserve asset ratios. Foreign exchange controls were eased so domestic companies could borrow overseas and foreign firms could tap New Zealand's markets. The exchange rate was allowed to float in March 1985.

Says Fay: "When the market was deregulated, all of our clients suddenly wanted to do some fundraising in the Eurodollar market. We're a fee-based organization, and we were first getting to the market, so it was very profitable." The firm raised about $400 million for clients that first year. A competitor attributes Fay, Richwhite's success to the fact that it had had to hustle to get started against entrenched competition in a hidebound environment. The rival, Keith Sutton, executive director of DFC New Zealand Ltd., says: "Deregulation wasn't a culture shock for them. They got on with it."

When the futures market opened in 1985, Fay, Richwhite didn't hesitate. "They didn't just buy a seat so they could do something with it in the future, as some others may have done," says Leonard Ward, the exchange's managing director. "They set out to do something with it straightaway." Trading stock and interest rate futures, Fay, Richwhite last year accounted for over 18% of the total volume on the exchange, far more than any of the other 16 members.

Nineteen eighty-six was a big year for Fay, Richwhite. The firm established a subsidiary called Capital Markets Ltd. and sold 20% of it to the public, thus providing the public with a partial glimpse of the investment bank's financials. With this vehicle, Fay, Richwhite formed a joint venture called European Pacific Investments with Brierley Investments (FORBES, *Feb. 23, 1987*) and the Bank of New Zealand. Paul Collins, Brierley's chief executive, says that the combination of these outfits' skills enables them to accomplish things together that they couldn't do on their own, such as raising money for European borrowers.

Today Fay, Richwhite has its home office in Auckland, and a branch in Wellington, New Zealand's capital. Its four Australian offices account for a third of the firm's revenues. Its London operation makes a market in Australian and New Zealand securities and participates in the bond swap market. The bank plans to open offices in New York and Tokyo.

Despite the firm's willingness to try new things, the most lucrative part of its business is rather staid: financing and trading government and corporate fixed-income securities, and making markets in New Zealand and Australian government debt.

And the America's Cup? Besides being fun, all that free publicity can't hurt the firm one little bit. ■

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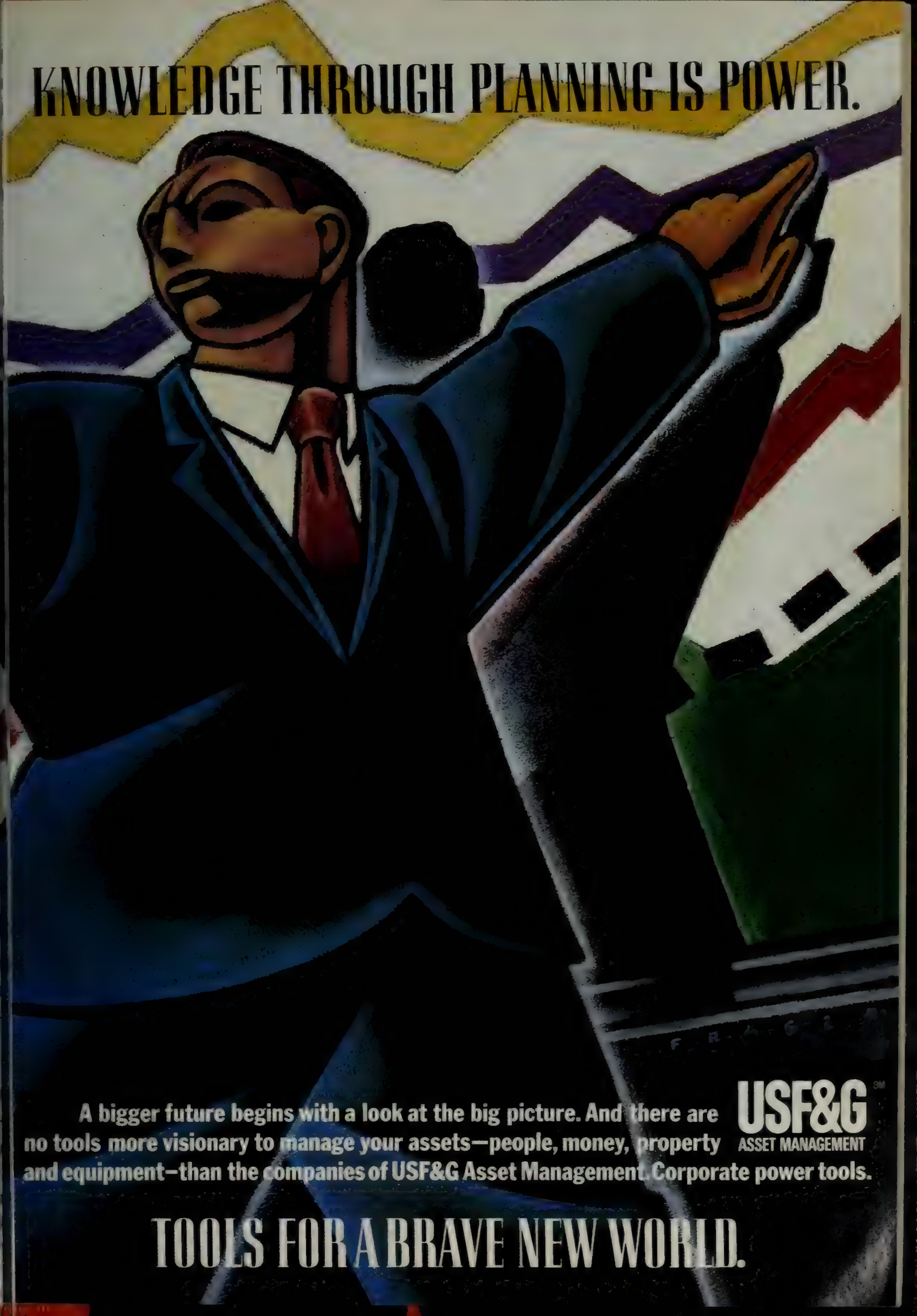
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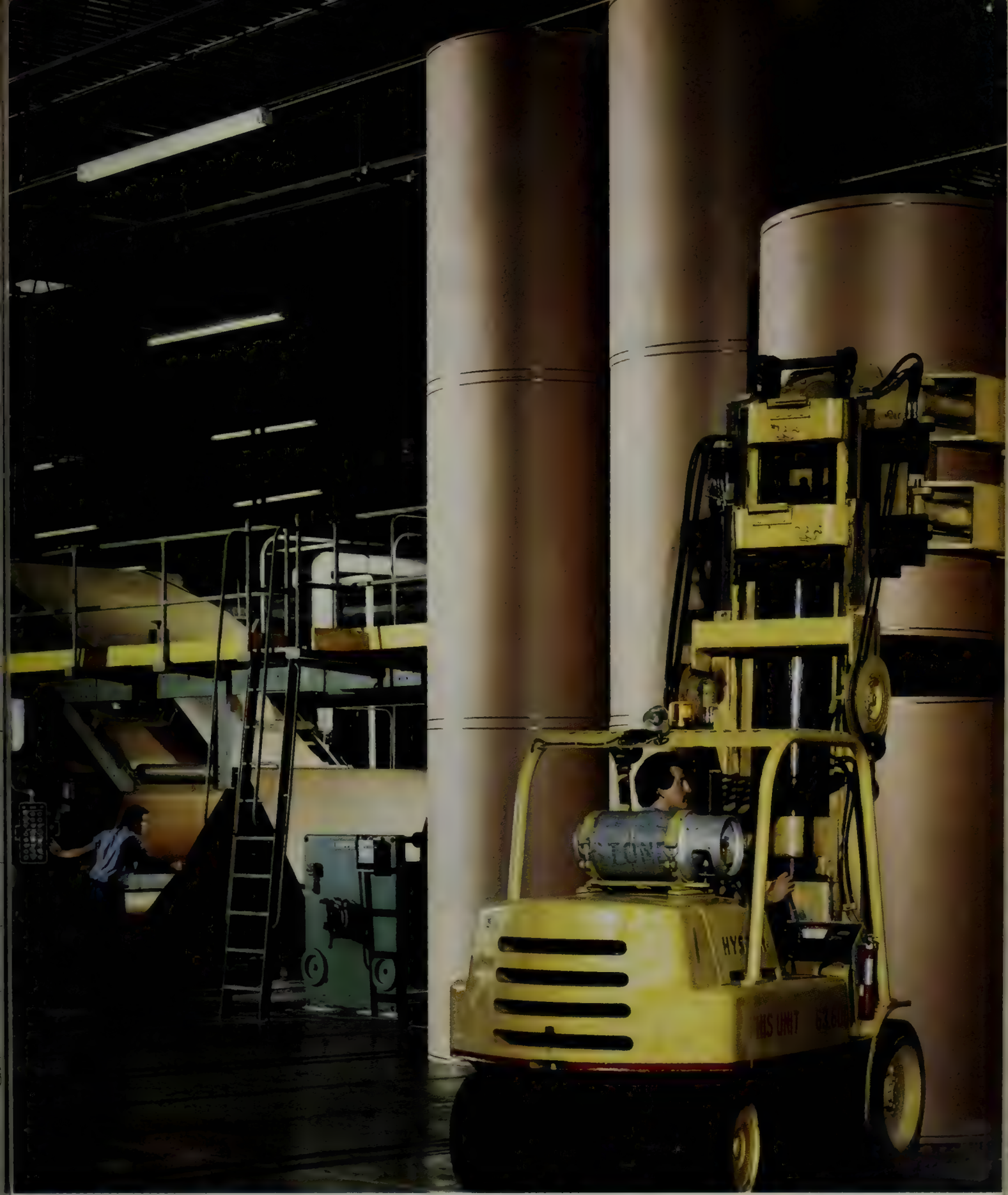

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The nation's largest developer of time-share resorts, Fairfield Communities Inc., is in the right business at the right time. You'd never know it from the bottom line.

"We thought we were invincible"

By John H. Taylor

FROM ITS HOME in Little Rock, Ark., Fairfield Communities Inc. (1987 sales, $330 million) runs a string of resort communities, from South Carolina to southern California, that should have vacationers all aglow as they fondle its brochures. Its 13 resorts accounted for 6% of the nation's time-share sales last year. Time-share is one of the fastest-growing segments of the resort real estate industry, a $1.75-billion-a-year business where pretax margins can run between 15% and 20%.

Nationwide, time-share sales are climbing between 9% and 12% annually, with a projected peak at perhaps $4 billion as the century turns. The relatively recent entry of large corporations like Marriott Corp. and General Development Corp. has helped erase much of time-share's early, unsavory reputation as a haven for high-pressure salesmen and con artists.

So why aren't the Fairfield stockholders smiling? Instead of racking up record profits, over the last 2½ years Fairfield has managed to lose almost $17 million. It has piled up a hefty $400 million in debt, about four times equity. Now, with the stock trading at around 5, down from a 52-week high of 10⅞ and still about 27 times projected earnings, the company must either get its act together or face a takeover battle.

The way things have been going, takeover is more likely. An investor group headed by Jacksonville, Fla. financier J. Steven Wilson has acquired more than 17% of Fairfield's stock. Although Wilson isn't talking publicly, insiders confirm that he is running out of patience. Says Frederick Schultz, a former Federal Reserve Board governor and a major investor in the Wilson group, "We feel the properties are worth between $11 and $12 per share."

Between 1975 and 1984 Fairfield rang up an unbroken string of earnings increases under the direction of the cofounder and chairman, C. Randolph Warner. In the mid-1980s the stock traded consistently at two to three times its current price, hitting an alltime high of 17⅛ (adjusted for splits) in 1983. By then Warner had decided he could do no wrong and launched an ill-fated expansion.

Charles Thatcher

Fairfield Chairman C. Randolph Warner
"We didn't have the management."

"We were trying to build a national resort community that would get us within 500 miles of all the major population centers of the U.S.," explains Warner, a courtly 59-year-old Arkansas native and a onetime editor of the *Harvard Law Review*. "But we didn't have the trained management to take on that many projects that quickly. We thought we were invincible."

Between 1981 and 1986 Fairfield increased its projects, from 7 to 29. These included retirement communities, time-share resorts, even a ski lodge. Some of the projects, such as Fort George Island in Florida and Fairfield Pusch Ridge in Tucson, remain undeveloped to this day. The company began shuffling managers from one time-share resort to another, with disastrous results. A foray into single-family home sales in Florida was largely unsuccessful. At the same time, Warner let Fairfield's selling costs and general overhead get way out of hand, to a total of $85 million in 1985, or 25% of sales, a figure even Warner labels "excessive."

Two years ago Warner finally embarked on a much-needed retrenching. He closed corporate offices in Atlanta and Jacksonville, laid off 20% of Fairfield's 2,600-person work force and hired John McConnell, a former Diamond Shamrock executive with extensive turnaround experience, to be chief financial officer. Warner and McConnell slashed the salaries of senior management by 10% and sold commercial properties in Colorado and Arizona. In May they agreed to sell five of six remaining Florida housing projects to investor Wilson for $64 million. The deal is expected to close next month.

For all that pain, it probably isn't enough. Fairfield still has too many projects that are producing little or no income, including Fort George, Pusch Ridge and time-share resorts in Pagosa Springs, Colo. and Ventura, Calif. Despite the restructuring, selling costs and corporate overhead remained at $84 million last year, exactly where they were two years ago. Interest expense was $35 million last year—11% of sales.

Warner has not yet been willing to get rid of four Arizona housing projects and two lackluster joint ventures in Florida and the Virgin Islands. Their sale would likely raise as much as $100 million, reduce debt and overhead, and leave Fairfield with its lucrative time-share division intact. But Warner believes the properties have long-term profit potential.

He doggedly predicts that Fairfield will make more than $2 million this year, even though the company lost $1.8 million in the first half. However, Warner's optimism is apparently based on the proposed sale of the Florida housing projects to Wilson, which would likely result in a profit of about $4 million. Take away that sale and profits would be zilch.

Major Fairfield investors, now weary of ineffectual restructurings, tell FORBES they will be receptive to the right takeover offer—from the Wilson group already waiting in the wings or anyone else. "I'd love to see it," says one of Fairfield's largest institutional holders. "This company has been nothing but a disappointment." ■

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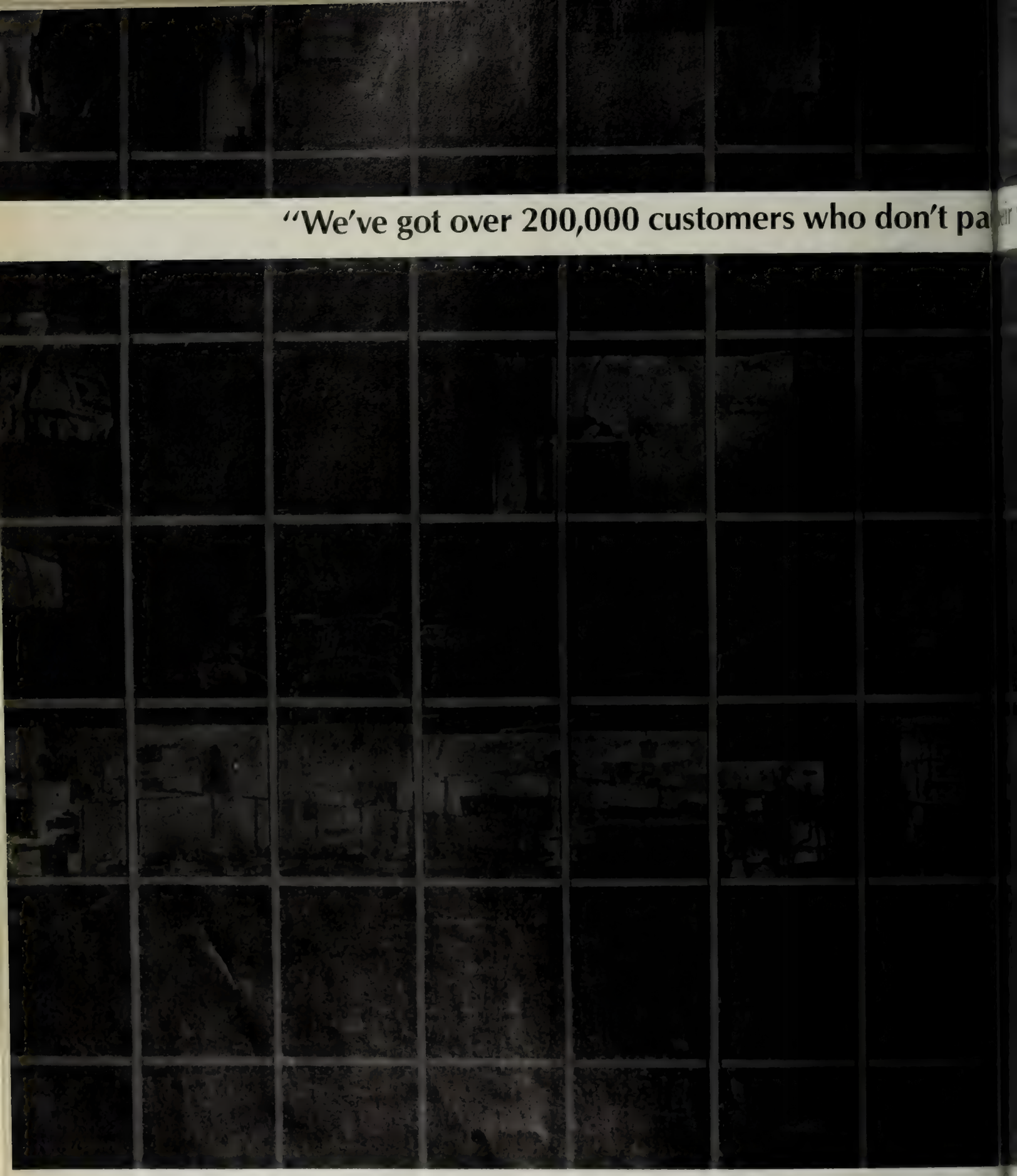

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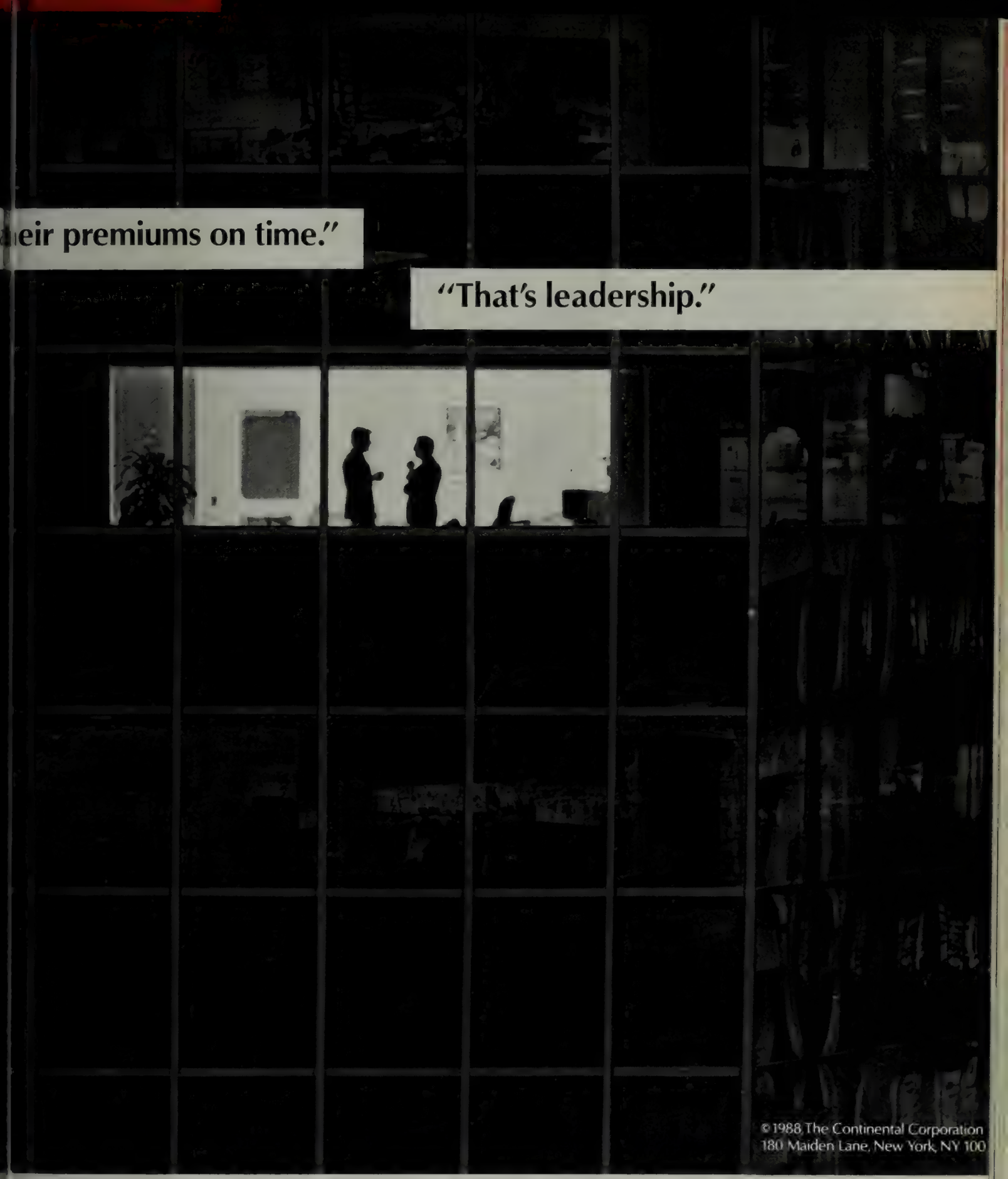

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Spain spent most of the 20th century living in the 18th century. With bewildering speed it's moving into the 21st.

Sun, sea and a will to change

By Richard C. Morais

THE VISITOR SPEEDING to Madrid's airport, his Samsonite luggage tied with an old piece of rope to the roof of the Seat taxi, can see both where Spain has been and where it is going. A gnarled and arthritic farmer coaxes a cantankerous donkey and cart of turnips past billboards advertising the *Financial Times* and a nationwide BMW dealership.

By 1992, when Europe's internal barriers are supposed to drop and Spain will be a full member of the European Economic Community, Spain hopes to become the Florida of Europe, luring both businesses and individuals with its relatively mild climate and wide-open opportunities for development. "In Spain we have sun, sea, happiness and cheap living," bubbles Basque industrialist Jesus Echevarria after a long lunch of red [illegible] and platters of blood-rare beef. "Primary industries will stay in northern Europe, but secondary manufacturing in need of cheap labor will move south. People want to live in their leisure centers."

The migration [illegible] started. Companies like Volkswagen, Ford, Honda and Nissan are [illegible] into Europe's new car [illegible] center. In recognition of [illegible] tential as a low-cost Eu[illegible] head, direct investmen[illegible] nese companies like [illegible] Sanyo and Sony was $267 million last year, and is rising fast.

Spain measured 5.2% GDP growth in 1987; estimates for 1988 are between 4% and 5%. Forecast: Spain will grow in excess of 3% every year until 1992. That compares with 1% to 2% for Germany.

The secret is out, and Madrid's Bolsa is up nearly 30% since January. Corporate earnings are expected to grow 25% in 1988 on increased sales and productivity, while interest rates are expected to go down. Consumer demand is sending utilities into uncharted territory: Telefonica reported a 58% increase in profits during the first quarter of 1988; Hydrola, meanwhile, was up by 49%.

It took political change to bring about this economic change. In 1981, as Spain's parliament debated the appointment of the new prime minister, Civil Guards led by Antonio Tejero took parliament hostage with a burst of machine-gun fire. Tanks rolled through the streets of Valencia. It was not the end of Spanish democracy but the last gasp of the old autocracy that had kept Spain 100 years behind the rest of Europe. King Juan Carlos showed his dedication to democracy by using a palace communications center linking him to the 11 key generals around the country to talk the army back to their barracks. The coup failed. The ghost of Francisco Franco was finally laid to rest, as were the ghosts of the left wing extremists whom he had defeated. Spain was firmly into the 20th century.

Felipe Gonzalez, Spain's prime minister, calls himself a socialist, but to him socialism seems to mean not state control of the economy but social reform in a still-stratified society. He declares himself an admirer of Margaret Thatcher, and has privatized a fair portion of the government's vast industrial and commercial holdings, left over from Franco's corporate state. His attitude: We prefer to subsidize a new technology company and pay unemployment benefits rather than prop up an industry that has no demand. This attitude represents a departure not only from standard practice under socialism but also from that which prevailed under Franco's fascism.

Evenly prosperous? Far from it, as anyone can see on the trip from the Barajas airport to downtown Madrid. Unemployment is at 20.2% of the working population. In Madrid a 30-year-old man peddling packets of tissues to cars stopped at a light chases away two teenage gypsy girls trying to beg pesetas by washing car windows.

But inflation, running at double-digit rates just a few years ago, is down to 3.9%. Because of a 14.5% increase in fixed capital formation last year, imports of machinery, transport material and technical instruments jumped 43.4% and produced an $11.4 billion trade deficit. A $1.3 billion surplus in last year's current account is expected to turn into a $3 billion deficit during 1988. No problem. Spain is sitting on $36.3 billion in foreign currency reserves.

Robert Freer & Susan Griggs

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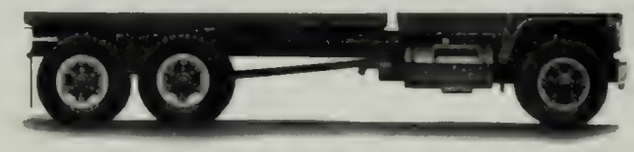

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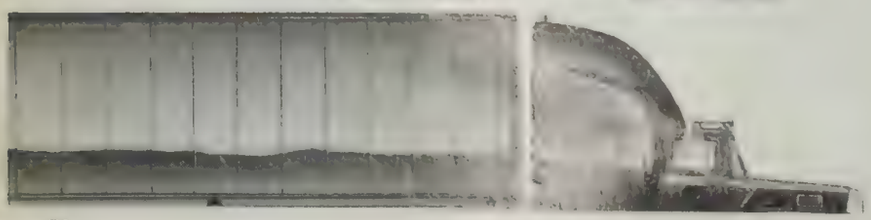

In 1992 Barcelona will host the summer Olympics and Seville will inaugurate the biggest World's Fair in decades plus a 500-year celebration of Columbus' sail to the New World. Historically more important, 1992 is also the year that the Common Market is to take a profound step ahead in economic integration.

Getting ready for this, Spain's public and private sectors will spend some $23 billion on railways, airports, motorways and telecommunications. "This is not cyclical growth but secular growth. We are making up for what was lost to us over the last 20 to 30 years," says Borja Ussia, a partner in Beta Capital, Madrid's hot new investment bank. Certainly consumer demand looks as if it is responding to years of malnutrition: Car registrations climbed 34% last year, housing starts 17%.

To earn the foreign exchange it needs to industrialize and modernize, Spain is counting heavily on tourism, which brought in $15 billion last year. In 1987 Spain became, for the first time, the largest tourist country in the world. And 1988 is already showing a 33% increase.

In recognition of Spain's potential as a low-cost European beachhead, direct investment from Japanese companies is rising fast.

Investment in the tourist industry is pouring in. Spain has 22 aquatic parks, up from zero a few years ago. Coming soon are amusement parks. Bechtel is assisting a Spanish company, Daylong Island Española, in the development of a $575 million theme park in Marbella. MCA, meanwhile, is completing a demographic study before committing to a project of around $400 million. "I'm inclined to build in Spain," says J. Anthony Young, president of MCA Enterprises International. "It has a lot of advantages and very few disadvantages."

Spain's coastline is lined with building cranes. Try Salou, a Costa Brava town where middle-class Brits lather up with Ambre Solaire and go on shopping sprees for flip-flops. A disco advertises "English-speaking disk jockey." On the outskirts of Salou, Spain's largest construction company, Dragados Y Construcciones, is building with a local partner an $85 million project with hotels, bungalows and a shopping center targeted at Spaniards. Why? Next door is a new aquatic park, and behind the lot An-

heuser-Busch's Busch Gardens is rumored to have its eye on the land passed over by Disney World.

Spaniards worry that too much of their tourism is low-end—cheap British and Scandinavian group tours. In Catalonia, the Commerce Ministry is upgrading the region's tourist industry on the coast and in the Pyrenees ski resorts, with low-interest loans available to ritzy hotels. In Barcelona the number of four- and five-star hotels will double from 6,000 beds in 1986 to 12,000 by the 1992 Olympics.

Like Florida, Spain wants to capitalize on Europe's rapidly growing number of older folks, who can bring with them foreign exchange. Spain hopes to attract each year 70,000 of the estimated 1.5 million Europeans retiring. Polar Sol, a 50-50 joint venture between Spain's Dragados and Finland's Polar Construction, sells its apartments and houses to Scandinavians. Polar Sol's Finnish director says Scandinavians who buy second homes "can save up to 20% to 30% on taxes by living six months in Spain." Mitsui & Co. España plans to sell in Japan 65 Marbella houses as second homes, part of a seedling project developed in conjunction with Banco de Bilbao. Expect more. "I recently met 15 representatives of several Japanese companies interested in building retirement homes here," says Abel Caballero, Spain's former minister of transport, tourism and communications. "The prime minister of Spain knows about it, and he is in favor of the project." Smiles José Duran, a director of Dragados: "The Japanese, like us Spaniards, eat a lot of fish and can appreciate a good guitar."

No comparison with Florida is complete without mentioning that state's dark side. Spain's steamy boom is attracting more than its share of hustlers. In Britain, where real estate offices specializing in Spain hawk their products from offices in London's West End, investors have been hit by a rash of fraudulent time-share schemes. "Time-share operators use very, very heavy sales tactics that originated in the U.S.," says Edward McMillan-Scott, a Tory member of the European Parliament. "The best marketeers are all Yanks who have left Florida for the new growth area."

But the Spain of 1988 would shock a visitor who hadn't been here for 20 years or so. In the land of the Inquisition, in the land where sex was a forbidden topic, Barcelona's movie houses openly advertise *Garganta Profunda.* For those who don't know Spanish, that translates into *Deep Throat.* ■

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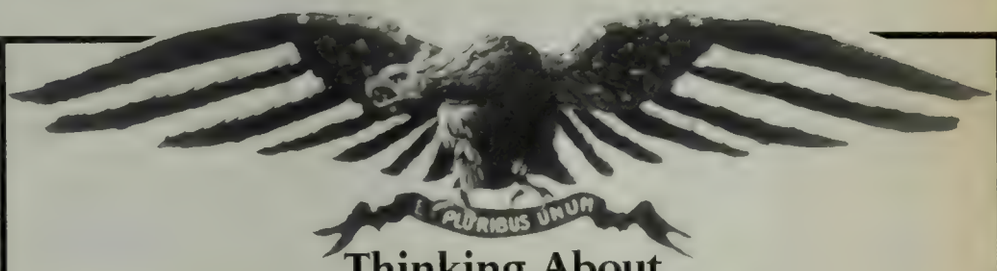

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British Telecom is a vivid example of the dangers of government ownership. Fortunately, a bright young chairman sees opportunities beyond the current problems.

How many bureaucrats to install a phone?

By Richard C. Morais

FOR A WORLD CAPITAL, London has telephone service that is appalling. Itemized call billing is not generally available. British Telecom's exchanges crash with irritating frequency, cutting off whole parts of London. In some areas new phones take up to six months to install. Experiencing the system makes Americans thankful for the Bell systems. Last year British Telecom was dubbed "the most loathed" institution in the U.K. in the *Financial Times* and other newspapers; its chairman, Sir George Jefferson, resigned abruptly.

But wasn't British Telecom sold to the public by Margaret Thatcher's government in 1984? (Some $200 million of BT stock trades on the New York and Toronto stock exchanges.) Wasn't it freed from the bureaucracy and inefficiency government ownership almost invariably brings? Yes, but nearly a century of government ownership had taken its toll. Decades of underinvestment in capital equipment and overpayments to its work force mean local traffic is still often routed over 50-year-old electromechanical switches. You don't undo decades of abuse in four years.

Running the show these days is BT's capable young chairman, Iain Vallance, 45, a man who focuses on the opportunities that lie beyond today's obstacles. That's fortunate because some of the obstacles are daunting. Among the most serious is BT's fat payroll—237,000 employees strong, many of whom think they're still working for the government.

"It's a standing joke that BT engineers forget their ladders," s[illegible] Austin, secretary of the Telecommunications Managers Association, whose members represent some 20% of BT's traffic. "It's bloody irritating." Austin says he recently ordered two phone lines for his office in a London suburb. Six BT engineers made three visits over a period of several weeks to complete the order. "You can take the man out of the post office," sighs a BT executive, "but it's harder to take the post office out of the man."

Vallance wants to sack as many of these bloody-minded workers as possible. But if he sacks too many too fast, BT's level of service will deteriorate further. The payroll was being trimmed by 5,000 workers a year until last year, when service complaints reached such a crescendo that BT was forced to rehire. The payroll problem is only made worse by explosive demand. As recently as 1970, only 35% of U.K. households owned a phone, compared with 81% today.

Curt Dotz

Rates? Unlike the antiquated return-on-investment regulatory framework to which U.S. phone companies are subjected, British Telecom's rates are tied to the retail price index. British Telecom must keep increases well below the general inflation rate, but there's no limit to how much money BT can make—nor limits on what it can do with profits—as it becomes more efficient. This flexible regulation is much better than the U.S. system, but not perfect. As of 1989, for example, BT must limit price increases to the retail price index minus 4.5 percentage points. If retail prices climb, say, 4%, BT must cut its prices by 0.5%. This means BT must become vastly more efficient just to maintain its current profitability.

In a pact with the government's Oftel, which regulates BT's rates and watches out for consumers, Vallance recently agreed that starting next April BT will pay customers $9 a day, or up to $8,600, for proven loss of profits every time it doesn't meet appointments to install or repair a phone line. Analyst Jack Summerscale, of Barclay's de Zoete Wedd, estimates the agreement could eventually cost BT about $43 million a year.

So Iain Vallance faces serious problems that can't be set right overnight. Yet there are already impressive signs that he is turning things around.

Vallance is attacking decades of equipment neglect by spending over $4 billion a year to update and modernize. Installing two digital switches a day, BT intends to be fully modernized by 1995. "Proportionally," says Vallance, "we have more fiber optics in our network than any major operating network in the world."

Vallance says BT "does not want in five years to be overly dependent on our core business, which is always open to regulatory, political and commercial pressure." For that reason, and to keep abreast of technology breakthroughs, Vallance is diversifying into North America. For $290 million BT purchased 51% of Ottawa's Mitel, a leading producer of PBXs and semiconductors. It picked up Rockville, Md.-based Dialcom, a world player in electronic mailboxes, now with about $100 million in sales. Vallance has invested $20 million in plant and equipment in a 50-50 joint venture with Du Pont to make fiber-optic components.

The jury's still out. British Telecom's financial results look good, largely because of extraordinary demand. For fiscal 1988 (ending Mar. 31) BT reported record earnings of $2.5 billion—42 cents a share—on revenues of $17.4 billion. Joan Sinclair at Baltimore's Adams Express, a closed-end fund holding 125,000 BT shares, likes the fact that, since privatization, aftertax profits are up 58%, earnings per share are compounding annually at 17% and the dividend is nearly 2.5 times larger. No one doubts Iain Vallance faces adversity. But in adversity lie opportunities. ■

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Robert Eggert runs his Blue Chip Indicators next door to a New Age community. Fortunately his forecasts are a lot sounder than those of some of his neighbors.

A genuine seer

By Peter Brimelow

THE RED ROCK canyon town of Sedona, Ariz. is a psychic energy vortex, or "power point," according to some of its newer inhabitants, adherents of the mystical New Age movement. Last summer the New Agers organized a simultaneous mass hand-holding and humming *("aaaaaahhh")* in Sedona and at similar power points around the world (Mount Olympus, the Pyramids). They said it was necessary to ward off possible catastrophic consequences of a planetary alignment—"harmonic convergence"—occurring for the first time in exactly 23,412 years.

Which bemuses the one unimpeachable energy vortex and certified seer in Sedona: Robert J. Eggert Sr., 74, a retired business economist (Ford, RCA), active breeder of quarter horses and hyperactive editor of *Blue Chip Economic Indicators.* Eggert's $398-a-year monthly newsletter publishes the prognostications of top economic forecasters around the country and also calculates consensus estimates that are now widely accepted as an industry benchmark.

A former farm boy, Eggert is the sort of no-nonsense character who gets up at 5:30 and always arrives early for appointments, trying the motel room door if his jet-lagged interviewer does not respond quickly enough. He says economic formulas must always be tempered by judgment. But the beauty of his *Blue Chip* system is its very unmystical discipline.

Eggert spends the first week of every month calling his panel of 51 forecasters, who (to the amazement of some competitors) supply him free of charge with their estimates of real GNP and 14 other key statistics, such as the Consumer Price Index and unemployment. Recently the highest GNP estimate for 1988 was Prudential Insurance Co.'s 4.1%; lowest was Pennzoil Co.'s 3%. The highest estimate for 1989 was Charles Reeder Associates' 4.3%; the lowest, Business Economics Inc.'s –1%, the only *Blue Chip* panelist currently expecting negative growth.

Eggert then calculates the average (the "Blue Chip Consensus") for all categories. Right now, for example, this calls for 3.8% real GNP growth in 1988 and 2.3% in 1989.

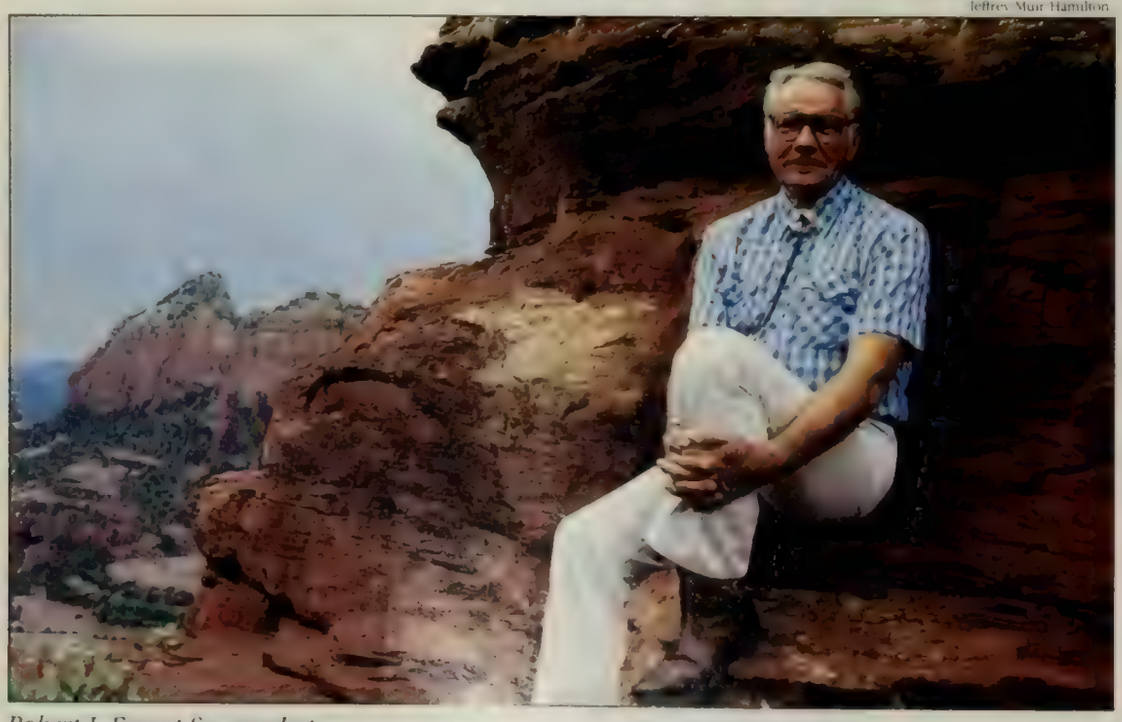
This Blue Chip Consensus is not merely a helpful yardstick, Eggert insists. He thinks it should actually have predictive power. His theory is that by diversifying across a wide enough base so that optimists and pessimists cancel each other out, he can generate a sort of market estimate of the future, much as gamblers at the race track, by each individually placing bets, collectively determine a fairly accurate estimate of each horse's chances in the form of the bookmaker's odds.

And in fact the Blue Chip Consensus real GNP estimate for the last five years, as made each preceding October, which Eggert considers to be the moment when business really focuses on the year ahead, has been on average within 0.6 percentage points of the actual result *(see chart, p. 88)*. Thus if 1989 conforms to pattern, the current Blue Chip Consensus estimate of 2.3% real GNP growth for 1989 suggests an actual result in the 1.7% to 2.9% range.

Blue Chip's biggest blooper in its 12-year history was 1982, when it completely missed the worst recession since World War II. Eggert says that when his panelists made their forecasts in October 1981, they simply didn't realize the determination of Federal Reserve Chairman Paul Volcker to wring inflation out of the economy.

On the other hand, the Blue Chip Consensus was not stampeded by recession fears after the stock market crash of October 1987. Although a record

Jeffrey Muir Hamilton



Robert J. Eggert Sr., analyst
A Blue Chip Consensus in a red rock canyon.

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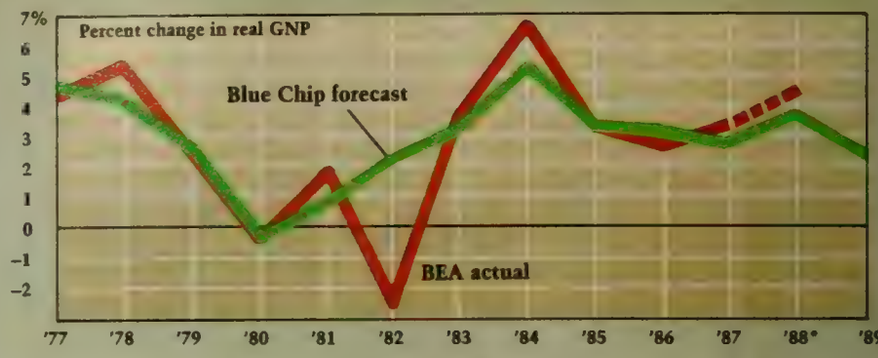
Ad Council

Not perfect, but . . .

Blue Chip Economic Indicators' consensus forecast for the year ahead, made each October the previous year, has tracked the economy's actual performance with some accuracy—with the glaring exception of the 1982 recession.



*Preliminary BEA numbers through June. *Source: Department of Commerce, Bureau of Economic Analysis*

44 panelists downgraded their 1988 estimates, overall the average forecast remained a stoical 1.9% growth.

Eggert also includes quarter-by-quarter consensus forecasts, but only in response to subscriber demand. He says that in general economists apparently find quarter-by-quarter forecasting much more difficult than estimating average growth on a year-over-year basis.

The Blue Chip Consensus method has worked rather less well on inflation—an average error of 1.2 percentage points. But it was able to catch the turning point in 1982, when inflation reversed its upward trend. Currently, the *Blue Chip* panel may be signaling another turning point: Its estimate for 1988 inflation has crept up to 3.1%, using the GNP Implicit Price Deflator, and 4.3% for 1989.

Of course, all macroeconomic forecasting is hampered by the ephemeral nature of its subject matter: government statistics. These are continually and radically revised, occasionally by as much as ten years back into the past. Eggert adjusts his records retroactively, but this annoys some forecasters who feel the rules are being changed on them. Eggert himself complains about the government's increasing use of fourth-quarter-over-fourth-quarter statistics. He thinks they can give a misleading impression of the overall year's experience because they are so sensitive to unfolding developments.

Eggert focuses on generating a consensus rather than on measuring the performance of individual panel members. But since 1981 the Theodore H. Silbert Annual Economic Forecasting Award, sponsored by New York's Sterling National Bank and named after its chairman, has been presented each fall to the most accurate *Blue Chip* forecaster. Accuracy is measured on a weighted average basis over three years, with each winner sidelined for the next three years. The 1987 winner was Professor Saul H. Hymans and the University of Michigan's very complex Michigan Quarterly Econometric Model, competing for the first time since an earlier victory in 1984. MQEM's current forecast: 3.8% real growth in 1988, 2.7% in 1989.

Eggert says most of his panelists have some sort of econometric model, variously adjusted according to personal taste. The last time he polled the panelists on their operating hypotheses, in 1984, 45% described themselves as Keynesians, 24% as monetarists, 10% as supply siders and the rest as rational expectationalists, Austrians and followers of a variety of other theories, including "judgment based on experience."

Eggert regards himself as a Keynesian with a few monetarist scars. His letter includes his own forecasts, which are heavily influenced by consumer spending trends, and he says exuberantly that in the last five years he's done better than the Blue Chip Consensus. Currently, his GNP estimates agree with it. He thinks the next recession will begin in the last half of 1989, slightly earlier than the date favored by consensus. It will be triggered, he says, by "something that jolts the consumer's confidence"—a Middle East oil crisis or, perhaps, a tax increase.

But Eggert believes the recession will be short. He says that the imbalances present in the economy, such as consumer debt, are not ultimately unmanageable. They will not precipitate a depression—two years of economic contraction—or the much-rumored catastrophic collapse. A comforting prospect.

Aaaaaahhh. ■

Some companies use high yield bond financing to help limit growth.

While there's no question that the cures for the world's most perplexing diseases will come out of research labs, nothing will be accomplished unless the right equipment goes in. Put there by companies in the burgeoning field of biotechnology. Companies like Bio-Rad.

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But as difficult as it is to design an instrument that analyzes the sequence of 3 billion nucleotides, or develop an immunoassay blotting strip to confirm the presence of antibodies to AIDS, it's even more of a challenge to find the money to get it done. Like any successful company, Bio-Rad's future is dependent on access to the capital markets. Access that would speed up the whole research process.

Over the years, Drexel Burnham has played an important part in helping Bio-Rad play its part. By arranging high yield financing, Drexel has been able to provide the solutions to Bio-Rad's capital problems.

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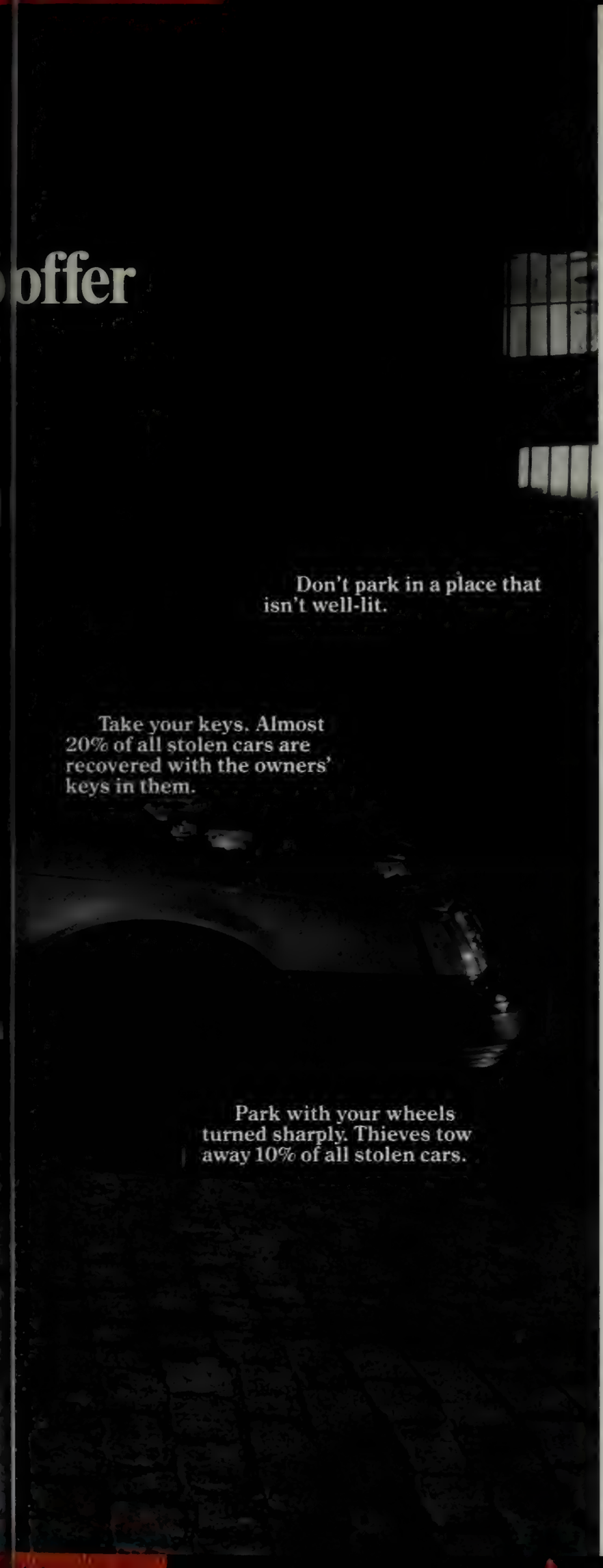

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Entrepreneurs

Larry and Mark Levy, entrepreneurs and brothers, have built an odd but profitable empire in Chicago that mixes hot restaurants and newsstands.

It started with Mom's matzoh ball soup

By Steve Weiner

SOME GUYS HAVE all the luck. Others make theirs. Brothers Larry and Mark Levy do both.

Larry, 44, is chairman of the $120 million (sales) Levy Organization and its burgeoning, Chicago-based empire of real estate, restaurants and newsstands. Back in the early 1970s Levy persuaded several pension funds to spend an average of $5,000 an acre for 1,600 acres of farmland 33 miles southwest of the Loop. Much of that land, managed by a local bank, is still planted in corn. But today, with corporate developments shooting west of the city, it's worth as much as $100,000 an acre.

That's the luck he made; Larry figured Chicago would grow this way. But here's the luck he stumbled into: In the midst of the worst drought since the 1930s, Levy's land has miraculously been under each of the few rainstorms that have crossed the area. Result: a fat cash crop of corn. "I can't explain it; I don't know much about farming," says Levy.

Levy and brother Mark, 42, didn't know much about any of their enterprises before they plunged into them. They relied on Mom's recipes for matzoh ball soup, blintzes and blueberry jello to keep their first eatery afloat—a "Chicago-style" delicatessen that opened in 1976 in the city's fashionable Water Tower Place mall.

But they learn fast. With 30 high-grossing eateries—most generate sales of more than $2.5 million in an industry in which only one restaurant in four does better than $500,000—the Levys are probably the hottest restaurateurs in Chicago. Sears picked them to open eight restaurants at Sears Tower; since 1985 sales have nearly tripled, to about $11 million. And Walt Disney World, after evaluating a dozen outfits, chose the Levys to operate two huge new "theme" restaurants at the Florida amusement park beginning next spring.

Last month the Levys became the nation's largest operators of newsstands when they completed the $25 million acquisition of 155-store Eastern Lobby Shops from Restaurant Associates Industries Inc., the New York restaurant operator. Combined with their own T.W. Best shops, the chain of 175 stores, providing half of Levy's sales, includes such choice locations as Rockefeller Center and the Pan Am Building in New York and most major downtown buildings in Chicago. Through acquisitions and expansion, the Levys may operate 250 newsstands by next year.

Steve Leonard

Levy Organization bosses Mark (left) [illegible] Levy
They have good taste, good [illegible] inspired copycats.

With so many units, the Levys gain greater leverage negotiating with publishers for fees in return for favored display positions. And they buy their goods cheaper—up to 4% less for candy, for instance, and up to 8% less for such merchandise as aspirin.

The Levys are smaller fry in Chicago real estate. They built One Magnificent Mile, a chisel-shaped, 58-story office and condominium building on a prime stretch of North Michigan Avenue. The apartments moved slowly, and the Levys sold

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their 50% stake in 1985. But Larry and partners have successfully built nearly 8 million square feet of industrial and office buildings, mostly around Chicago. And he and partners hope to begin construction next year of a $350 million North Loop office complex.

The Levys won't say how much money all this makes. The goal, says Mark, the vice chairman, is a 30% return on equity, "and we get that or better." Returns on restaurant assets, says Larry, run "substantially over 20%," very high for the industry. Some numbers may be revealed if the Levys take their newsstands public, a project frequently discussed.

Natives of St. Louis, the Levys have always invested together. Larry got his M.B.A. from Northwestern University in 1967 and went into real estate. Mark was trained in journalism at the University of Missouri but went into insurance, he says, because reporters were paid so little.

The Levy Organization started after a restaurant investment soured in 1977. That was D.B. Kaplan's, the deli on the seventh floor of then-struggling Water Tower Place. When their operating partner left, Mark, with no restaurant training, stepped in.

Although poorly run, Kaplan's had nonetheless produced sales nearing $3 million a year. Under Mark, it became so profitable that Water Tower leased its remaining restaurant space to the brothers. They carved it into three separate eateries. Eadie Levy, the boys' mother, still serves as maitresse d'hotel of the best, the Chestnut Street Grill, featuring seafood grilled over wood fires. Sales from the three units have jumped to nearly $7 million from $2.2 million pre-Levy.

The Levys won't say how much their businesses make. But the goal is a 30% return on equity, and, says brother Mark, "we get that or better."

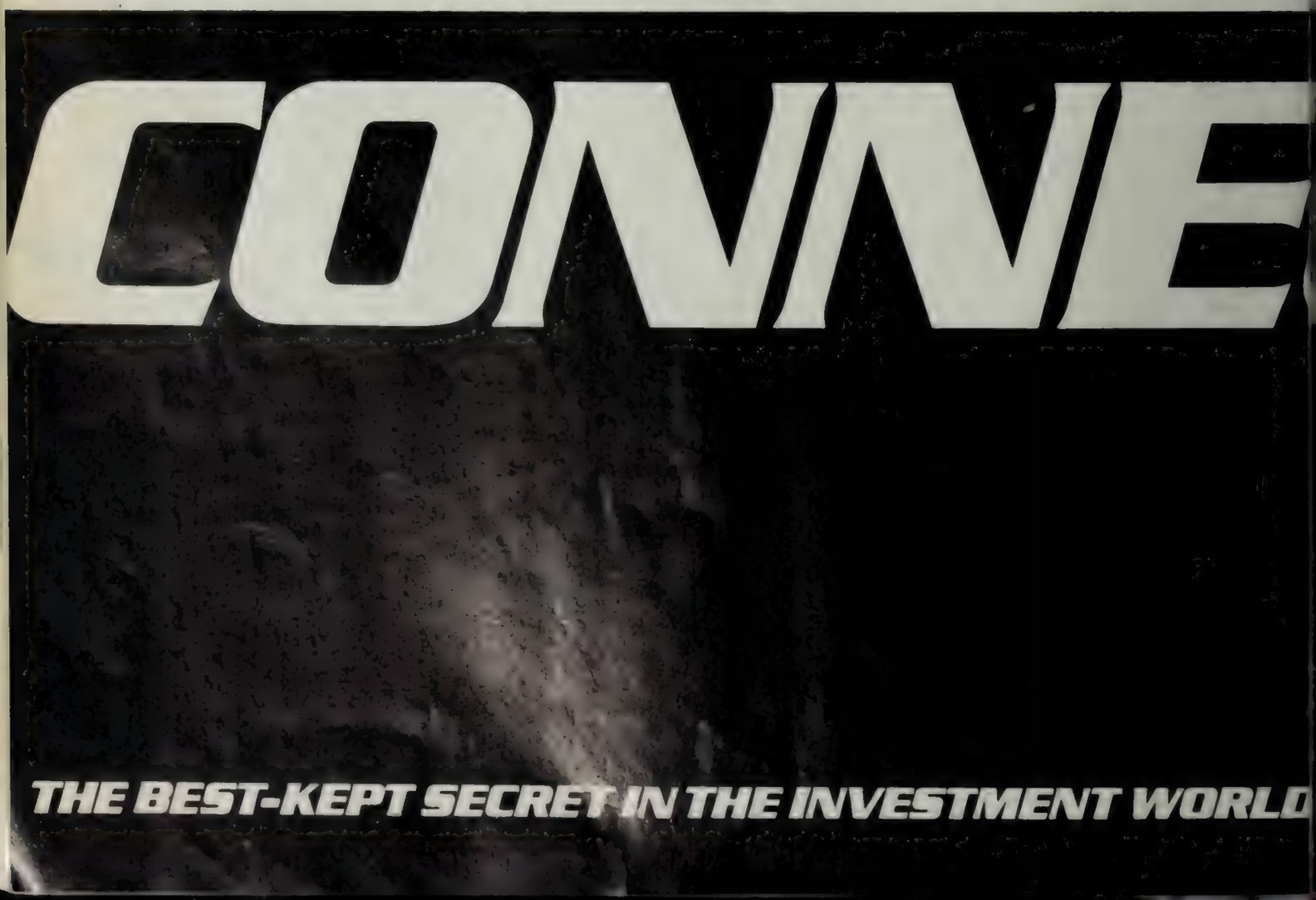
The Levys are inspired copiers and interpreters of food trends proved elsewhere, rarely innovators. They ceaselessly sample restaurants around the nation for ideas, then offer only items that they personally savor. The Chestnut Street Grill, for instance, was inspired by San Francisco's Tadich Grill, right down to the potato-based tartar sauce. Hillary's bar and grill at Water Tower copies similar establishments in Washington, D.C. and San Francisco. Roasted garlic served with bread at Bistro 110, a half-block from Water Tower, emulates a garlic dish found at a Bay-area eatery.

Sometimes the chase grows desperate. Mark once hired a laboratory to analyze onion rings he found at a Chicago steak house. But it took trade skulduggery to make perfect copies—a steak house employee pirated the recipe for them.

The brothers have their share of failures. An afternoon newspaper Mark launched in Chicago in 1986, after local dailies discontinued evening editions, folded after nine months because the Levys couldn't solve distribution problems. Levy restaurant concepts have flopped in Atlanta, Los Angeles and New Jersey. And many fans were angered by the Levys' inability to save Hillman's, a Chicago grocery, catering and gourmet food chain they tried to rescue several years ago.

But even failures have their uses. Land acquired from Hillman's will be used in the North Loop office project. And because he knew that gourmet grocers were prone to failure, Mark last year shorted the stock of a similar enterprise and made back every penny he had lost on Hillman's.

Smart operators? You bet. But also energetic entrepreneurs with a canny sense of good taste and quality in markets where both are often lacking. That's a recipe for riches. ■



Strategies

What's good for the entrepreneur may not always be so good for the company. Take Alan Rypinski and Armor All Products.

A good reason to mess with success

By Julie Schlax

ALMOST ANYONE WITH A CAR has at least heard of Armor All. The milky white stuff works wonders on dashboards, bucket seats and tires, and that, in the car-crazy U.S., adds up to serious money. For the year ended Mar. 31, Irvine, Calif.-based Armor All Products Corp. reported sales of $126 million, up nearly 80% from 1984. Profits? Over $22 million, up 87% in the past four years. It amounts to a net return on sales of 18% and a return on equity of 32%.

All of which makes Armor All one of the star performers in the stable of McKesson Corp., the $7.3 billion (sales) San Francisco-based distributor of drugs, toiletries, wine and spirits. (In late 1986 McKesson sold 3.5 million shares—about 17%—of Armor All to the public.)

Not satisfied, McKesson is trying to push this one-product company into new fields. Armor All has rolled out a car wax, a car wash and an all-purpose cleaner in a spray bottle. All this will cost money, of course—$8 million of its $20 million annual promotion budget for the new wax line alone. That will surely put a dent in Armor All's gleaming rates of return.

Why mess with success? Simple. Armor All now has 90% of the estimated $225 million (retail) automobile "protectant" market (a category it created). Sales growth, averaging around 17% a year, must eventually slow. Protectants represent roughly a third of the $600 million automotive "appearance chemical" market, which also includes waxes, polishes, car wash and specialty cleaners.

A better question might be: Why did Armor All take so long to extend its well-known name? The answer lies in McKesson's deal with company founder Alan Rypinski.

Rypinski, an Orange County entrepreneur, marketing whiz and car buff, stumbled across Armor All in 1972 while restoring his vintage Jaguar. He

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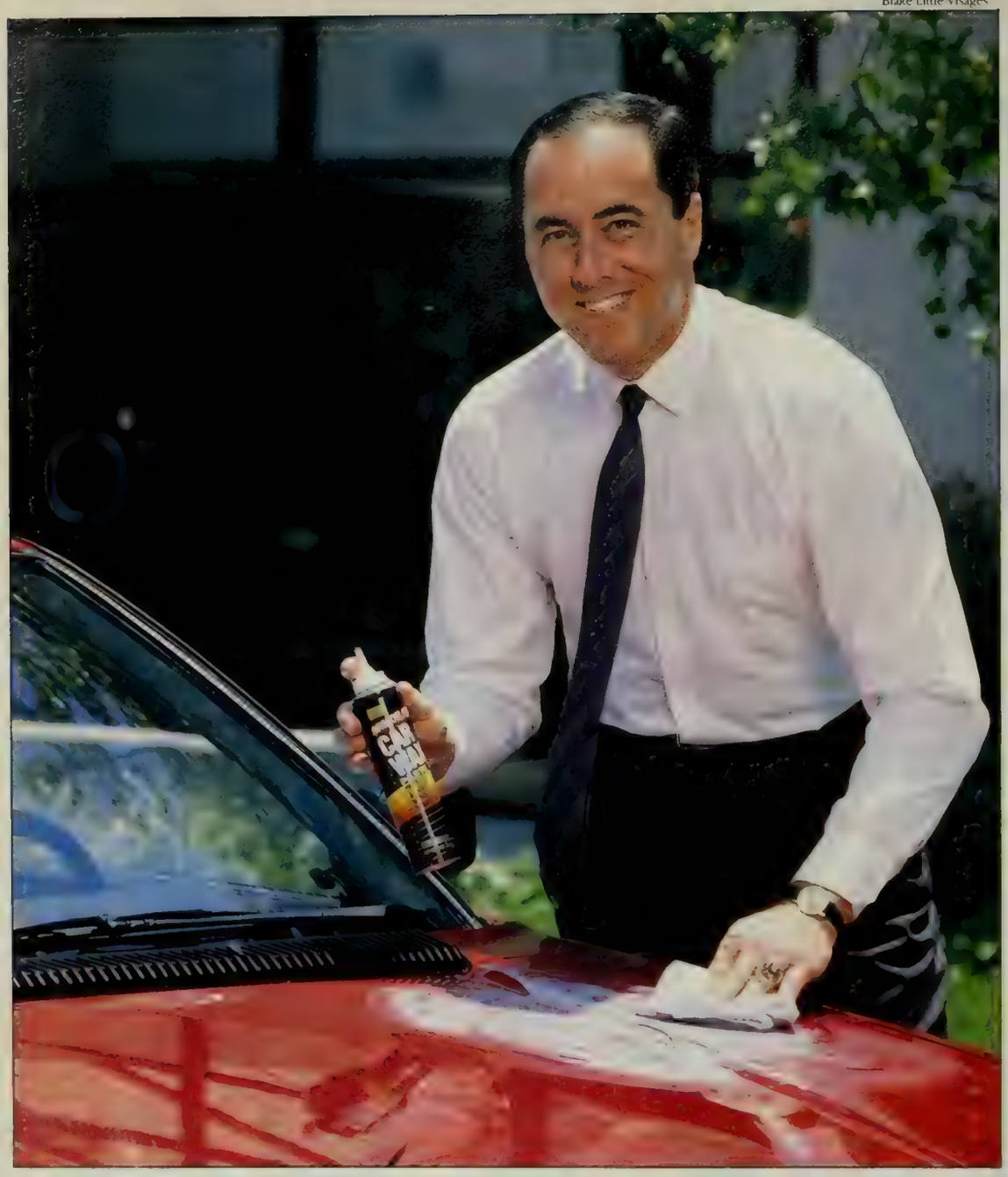


Armor All Products President Jeffrey Sherman
Steering the company into new products, new markets.

bought the rights to the stuff from its developer, a chemist. Seven years later, Rypinski, then 40, sold out to McKesson under terms that eventually netted him nearly $50 million, paid out over five years.

Setting aside the big money for Rypinski for half a decade left no money for a big overseas push and for development of new products, Armor All President Jeffrey Sherman, 39, admits. It wasn't until 1984 that Armor All entered Japan. But it's moving fast there. Despite having to play catch-up with a home-grown competitor, Armor All now has a 25% share of that potentially lucrative market. In 1985 it finally entered the West German market.

At home, meanwhile, wax competitors like $100 million (estimated revenues) Chicago-based Turtle Wax, Inc. and Borden, Inc.'s Rain Dance solidified their market positions.

With his former mentor Rypinski gone, Sherman is making up for lost time. Witness the progress in Japan. A certified public accountant by training, Sherman joined Armor All in 1978 in the finance department and became chief executive in 1985. As reserved as Rypinski is flamboyant, Sherman is no less sold on Armor All's potential. Flashing an Armor All ring at the company's airy Orange County headquarters (which sports a racquetball and basketball court), Sherman declares: "There isn't a household in the world that shouldn't be using Armor All."

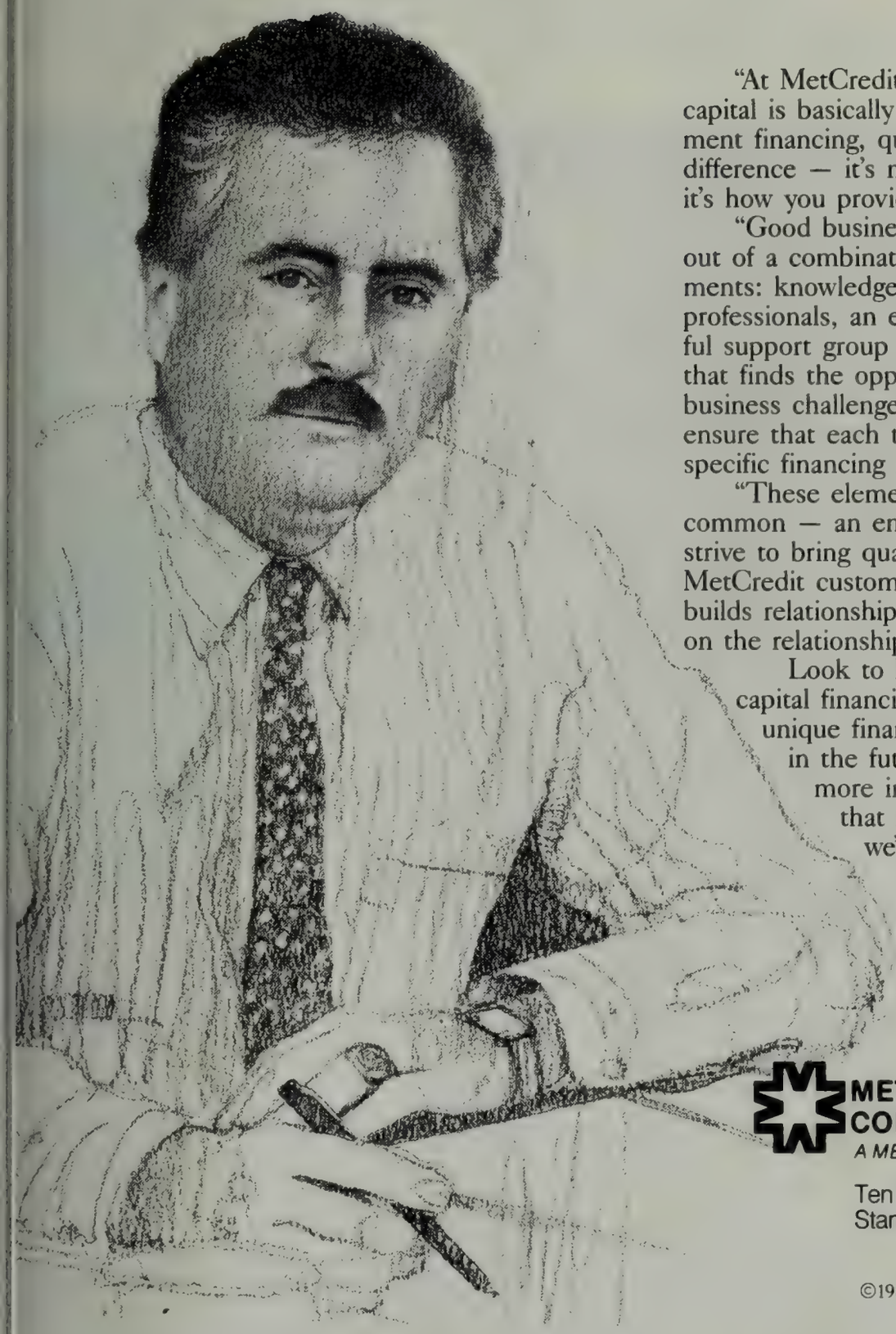
In contrast to Turtle Wax, say, whose product line numbers some 40 items, Armor All plans to stick with only 4 products—protectant, wax, cleaner and car wash. The professional marketing and product development team Sherman has recruited includes Paul Jones, 30, who managed Union Carbide's Simoniz car care line. For now Sherman is targeting traditional buyers of car care products, males 18 to 49 years old. But, gearing up to pitch women, he has come up with a paste wax in an easy-to-use can closely resembling those used for mousse-style hair products. In the same spirit, Sherman hopes to cut through the clutter at the car care counter, with packaging and floor displays that are clean, bold and distinctive. Results are encouraging: In less than a year Armor All Car Wax has passed Rain Dance and is closing in on leader Turtle Wax, according to A.C. Nielsen figures.

Meanwhile, Sherman is doing everything he can think of to protect Armor All's commanding position in the protectant market. In addition to new store displays, coupons and rebates, he is targeting full-service and self-service car washes. At the latter, he's selling "Armor All sponge packs" from vending machines for $1. To hook new customers, he has distributed a promotional videotape to 5,000 high school driver education teachers. Entitled "Looking Good," the tape equates a clean car with safe driving.

Overseas, Sherman aims to expand throughout Europe and also into South America. Currently the U.S. accounts for 88% of sales. Says he: "Fifty-seven percent of the world's cars are outside of North America, so we believe there is the potential to double our business."

Wall Street seems to share Sherman's optimism. After falling from 27 to 11 following last October's crash, Armor All recently traded around 22, or 21 times trailing earnings. A lofty multiple, that. But Sherman has a strategy to justify it and, now that Rypinski is paid off, no shortage of money to execute it. ■

"We build relationships, not deals."



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THE ROMAN EMPIRE AND MILITARY AIRLIFT

Perhaps the r remarkable t about the Roman Empire was that, at its greatest graphic extension, its security was assured by a r thirty legions. From Scotland to Egypt no more 180,000 regular troops kept the Empire in tranq

The key to this manpower-efficient defense the metalled road.

Metalled roads provided a great logistic advan over ordinary dirt highways, which could not sup the traffic of a marching legion (around 6,000 tro and a like number of animals). Even in dry wea movement was restricted to about twelve miles day. In rain and snow, dirt roads were churned

gmires, and movement stopped altogether.

But on their extensive network of paved, engineered ls, the Roman troops could march thirty miles a –in all weather. Legions could be quickly shuttled ınd the empire to respond to unrest in one prov- , or the invasion of another. In this way, Rome d afford a much smaller defense establishment the geographic size of her empire would suggest. n the late 20th century this lesson of strategic and cal mobility is still apt. For the United States, with global commitments, our Roman roads are our t fleet.

Presently that logistic potential is adequate to re- nd to small scale crises around the world. But in event of a major outbreak overseas, and given the ngth of our current airlift fleet, there has been some debate as to our ability to protect our worldwide interests.

Flexibility is critical to an efficient defense. Julius Caesar understood it. All Romans understood it. It was the primary reason for their paved roads. Without them, the Roman Empire would not have lasted as long as it did, for the mere knowledge that legions could be on the scene within weeks was usually sufficient to keep the peace.

In the near future, the knowledge that overwhelming American force might be on the scene within hours would give pause to potential enemies. And that, in the final analysis, would be the most efficient defense of all.

Lockheed
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Roman road at Timgad, Algeria

Here's a market so volatile that our market crash last October looks downright tame.

Carnival in Rio

By Patrice Duggan

THE STOCK MARKET in Brazil is as wild as Rio's *carnaval*—but the stock market carnival goes on all year while *carnaval* takes place for only a few days. Until July stock prices in Brazil were flying high, partly because of the influx of international investors. Rio's stock index went up 420% in nominal terms in the first five months of the year; that's over 100% adjusted for inflation. And as suddenly as it took off, the São Paulo exchange crashed in July, losing 28% in three weeks.

Such bumps are the rule, not the exception. Before taking off early in 1988, the market dropped about 70% last year in U.S. dollar terms. Still, the market has attractions for foreign investors, with many good stocks selling at three to four times earnings and at a fraction of book value.

But Brazil is not Japan, nor Korea, at least not yet, and its stock market is strictly for investors with a strong stomach. With a raft of serious long-range economic and political problems, Brazil could take decades to embark on a sustained period of low-inflation prosperity. Meantime, the risks are at least as great as the potential rewards.

How do foreign investors cope with that kind of volatility? Basically, they ignore it. "It's just one of the realities that you have to live with," says John Arena of Batterymarch Financial in Boston. Besides, he points out, "We're taking a long-term approach to take advantage of the growth we see in the country." Batterymarch is one of a number of investment firms and institutions that have recently gone into Brazil with private-placement closed-end funds.

These investors are encouraged by two recent developments: the growth of Brazilian pension funds in the local stock markets, and high hopes for the debt/equity swaps that began last March. However, these swaps, intended to transform Brazil's external debt into foreign investment, have so far been disappointing for the stock market. Only $9 million has actually made its way into the 58 registered conversion funds.

Altogether about $450 million in closed-end funds have registered with the market since the summer of 1987 when Brazil adopted new, more liberal, regulations in an attempt to attract foreign capital. That's a significant investment, considering that Brazilian stocks have a consolidated market capitalization of $25 billion, roughly the same as AT&T.

When First Boston offered shares in its Brazil Fund last March, the issue was oversubscribed, raising $150 million, 50% above the original offering; the Kuwaiti government bought 7.4% of the shares. However, fund managers as of July had actually invested only an estimated $15 million of the $140 million going into the market. And the stock, which debuted at $12.50 on the New York Stock Exchange, has slid to around 8½, or a 28% discount to net asset value.

Brazil is no little banana republic. It has nine stock exchanges, with Rio de Janeiro and São Paulo making up over 95% of the volume in about 630 companies—less than half of which are likely to trade on any given day. In 1986, after the Cruzado Plan spurred the market upward, some 57 companies went public.

For all its appeal, this is no market for the innocent. Despite efforts in the

Carlos Humberto/TDC Contact

...ers on the floor of the Rio stock exchange
For a novice, it's a sucker's game.

last decade to improve regulation in its markets, Brazil is still a paradise for stock manipulators. Why? Some of the lawlessness of Rio's crime-ridden streets spills over to the stock market. Thin markets and a culture bred on a get-rich-quick mentality encourage a gambling rather than investing approach. "Our stock market has a lack of balance between speculators and investors," says Eduardo Levy, former chairman of the São Paulo exchange and critic of the current exchange administration. "It would be suicide for a private investor to go by himself into this market and try to match those guys."

Most notorious among Brazil's stock manipulators is Naji Nahas, a Lebanese-born Brazilian national known in the U.S. for his involvement with the Hunt brothers in the 1970s silver scandals. In February of this year Nahas bought enough calls on Petrobrás, Brazil's $20 billion oil monopoly, to drive the market up. When he exercised his calls in April, the price had more than doubled. São Paulo exchange Chairman Eduardo da Rocha Azevedo demanded he return his profits. The grounds? Nahas had acquired too large a concentration. Nahas insisted that you can't change the rules in midstream, and a personal feud commenced. In the end Nahas took the matter to court and received an injunction allowing him to retain his earnings.

Adding to the problem of manipulators is Brazil's endemic inflation, which is currently at more than 20% a month, 600% to 800% annually, up from 366% for 1987. The external debt is at a record $120 billion and the government is projecting nearly flat growth for 1988.

To add to the instability, Brazil is still in the midst of writing its constitution, and the populist and nationalist politicians are in full howl. "Clauses have been put in the draft of that constitution that, in effect, say that property rights will be strongly abridged," says Batterymarch Financial's Arena.

But the allure remains. The economy, though chaotic, is vibrant. The country is rich in natural resources and has an internal market of 144 million people in a vast territory. This year Brazil expects a trade surplus of up to $15 billion—at a time when the U.S. is still in a deep deficit on trade.

For speculators who know the ropes, Brazil is a market for right now. For the novice, its markets are a sucker's game. But for investors who can take a long view and ride out the bumps, it is a country for the future. ■

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Just how cheap are Brazilian stocks? Take $1.2 billion (revenues) Varig, the national airline. Its market capitalization? A mere $30 million at recent prices.

First world company, Third World country

Varig Executive Vice President Rubel Thomas
"We work for us, not the government."

Rogerio Reis f4

By Marc Beauchamp

VARIG S.A. IS THE publicly traded holding company that owns both Varig Brazilian Airlines, the country's international flag carrier, and Cruzeiro do Sul, a leading domestic airline. With 1987 revenues of over $1.2 billion, Varig is one of Brazil's leading enterprises, long profitable—until last year, at least—and well managed. Between them Varig and Cruzeiro serve 43 cities in Brazil and 42 cities in 32 foreign countries on five continents with a fleet of more than 70 planes.

In theory you could buy the whole shooting match for around $30 million—about the price of one of Varig's Boeings. That's the market capitalization of its 300 million outstanding shares, traded on the São Paulo and Rio de Janeiro stock exchanges.

Why so cheap? Last year Varig posted its worst-ever loss—$89 million (By contrast, in the three years prior it had earned a total of $260 million.) The main culprits: revaluation of ven-denominated aircraft leases an[illegible] economic recession, aggravated wh[illegible] the Brazilian government imposed temporary restrictions on travel as part of its ill-fated Cruzado anti-inflation plan.

One smart money man regards the setback as temporary and thinks the stock is a screaming bargain. He's Dean LeBaron, who runs Boston-based Batterymarch Financial Management, which manages some $9 billion for clients like AT&T, General Motors and J.C. Penney. Since last October Batterymarch has purchased 4% of Varig. A year ago Batterymarch raised $100 million in a private placement to invest in Brazilian equities. Besides Varig it owns stakes in some 80 Brazilian firms. Argues LeBaron: "Brazil is underpriced and neglected by international investors." (To participate in the Brazilian market, foreign investors, for now, must buy shares in mutual funds like the Brazil Fund *(see story, p. 100)*.

Over the years, despite Brazil's bumpy economy, Varig grew and prospered, with aftertax margins in recent years of better than 6%, well above the average for the U.S. airline industry. Some 28 international airlines serve Brazil, yet Varig carries more than 40% of the passenger traffic between Brazil and the U.S., Japan Europe and Africa. Varig and Cruzeir also control nearly half of the domes tic market. In addition, Varig runs string of four first-class hotels, from Manaus in the Amazon to Iguass Falls in the south.

The airline was founded in 1927 b Otto Meyer, a German immigrant, i Porto Alegre, capital of the southeast ern state of Rio Grande do Sul, hom to many German immigrants. The and their descendants, including Var ig's current president, Helio Smidt 63, have held key management posts

Varig's internal motto, says Eli Cerullo, the airline's general manage in Salvador (Bahia), is "a first worl company in a Third World country." As measured by conventional yard sticks, Varig certainly is that. Whe Varig began flying from Rio to Ne York City in 1955, going up agains Pan Am, it decided to stress in-fligh service. Today on Varig's internation al flights, food, amenities and servic in business and first class rival suc luxury leaders as Japan Air Lines an Singapore Airlines. Even in coach meals are served on china, wine i stemware.

Another factor in Varig's succes is its unique ownership structure. I 1945 Ruben Berta, Varig's secon president, transferred half of th company's stock to an employee owned foundation. Today the foun dation controls more than 80% o the company's shares. "We work fo us, not the government," says Rube Thomas, executive vice presiden and Smidt's heir apparent. "If w succeed, the benefit is divide among us." The foundation provide Varig's 40,000 employees with suc sought-after benefits as free medica care, low-interest loans and subsi dized meals.

To earn more hard currency Varig i expanding into promising foreig markets. It has increased service t Tokyo from Los Angeles in a join venture with Japan Air Lines. Varig i spending $1.5 billion on new aircraft mostly Boeings. With Brazilian ex ports strong, Varig's cargo busines (20% of revenues) is growing, too.

In short, Varig is acting as if th current problems were merely grow ing pains. Executive Vice Presiden Thomas ticks off the signs of Braziliar economic and political progress: th debt agreement with the U.S.; Brazil' projected $15 billion 1988 trade sur plus; and progress on drafting a nev constitution. Says Thomas: "We real ly believe in our economy." So, for al the problems, do some shrewd foreig investors. ■

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The accountants who run Canada's powerful International Thomson turn publishing niches into cash cows.

Profits by the numbers

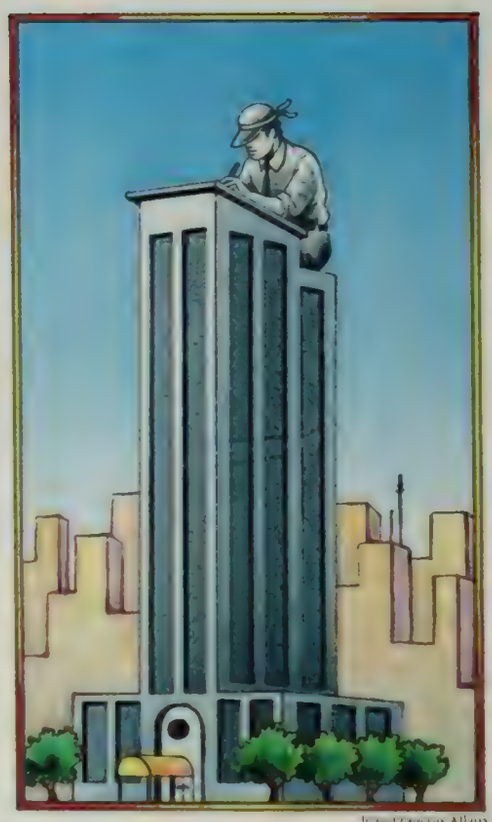
By Laura Jereski

International Thomson Organisation Ltd., based in New York City but rooted in Canada, isn't the best-known publishing company in the world, but it is one of the biggest and most profitable. It owns such prime publishing cash cows as *The American Banker, Physicians' Desk Reference* and the *Journal of Taxation*. If you need to know when a ship, plane or train is scheduled to leave or arrive anywhere in the world, you are almost certainly a subscriber to Thomson's *Official Railway Guide* or another of its definitive transportation directories. Thomson also owns the publishing operations of Sheshunoff & Co., America's premier bank rating service, and Spectrum, a computer database of Securities & Exchange Commission filings.

Thomson isn't so much a publishing company as a conglomerate. It runs the U.K.'s largest tourism business, Thomson Travel, which includes a charter airline and, after a new acquisition, a 40% share of the U.K. package tour market. It also holds a 20% share in three oilfields in the North Sea.

But its small, sparse U.S. headquarters on New York's Park Avenue gives no hint of its far-flung empire. Here, a handful of extremely skillful number-crunchers run a company with 1988 estimated revenues of $3.65 billion and operating income of some $350 million. (All figures are in U.S. dollars, which International Thomson has been reporting in since 1987.)

All this is quite profitable. Operating margins of 18%, up from 9% only three years ago, still lag those of publishers in the U.S., Canada and England. But only Times Mirror and Toronto Sun Publishing can top Thomson's earnings growth, and only Commerce Clearing House beats its five-year return on equity of 23.4%. And just look at cash flow—some $350 million aftertax this year, and growing, says Richard Garmaise of First Marathon Securities in Toronto.



Appropriately, the man who runs this show is an accountant by training. He's Michael Brown, the 53-year-chief executive. A bit inappropriately for the head of a giant publishing company, Brown gives no interviews. He doesn't even apologize for the low profile. "Most people aren't interested anyway," is the excuse given by Robert Jachino, president of Thomson's information and publishing group. What he means is: Our business is nobody's business but our own.

And what a business it is, including the largest medical and automotive publishers; South-Western Publishing, the leading business textbook house; and Warren, Gorham & Lamont, the leader in real estate, legal and accounting directories, journals and professional books, as well as a dozen more divisions parceled around the world.

International is one of three major enterprises controlled by Canada's Thomson family. The other two are Thomson Newspapers—which owns the largest number of daily newspapers in the U.S. and Canada, including the *Moose Jaw Times Herald* and the Bathurst *Northern Light*—and $4.3 billion (revenues) Canadian retailer Hudson's Bay. The family fortune, currently pegged by Forbes at $5.1 billion, was started by newspaper magnate Roy Thomson over 40 years ago. Since he died in 1976, two family trusts have held majority positions in three public companies, ranging from 61% to 73%. The names of the trustees have never been revealed, nor has the way the trust is managed.

International Thomson stock trades on the Toronto Exchange, and the minority shareholders are spread around in Canada, Great Britain and the U.S. But voting control rests squarely with Roy's son, Lord Kenneth Thomson of Fleet, who owns 73%. He is required under the terms of the family trust to pass on voting control to his male heirs. Trading recently at $13 (Canadian), 15½ times earnings, the shares are attractive even by Toronto Exchange standards. With a market capitalization of about $3 billion, International Thomson sells for only 85% of its 1988 revenues, while such other publishing houses as Times Mirror sell for a 12% premium to revenues.

Why the undervaluation? Secrecy may have something to do with it—plus the fact that there is no chance of a takeover: The minority shareholders are just that, minority shareholders. International Thomson has been Brown's to shape since 1984, when he succeeded Gordon Brunton, who planned International Thomson's reversion to publishing from oil and gas.

Until 1978 International Thomson's predecessor companies had been the repository for the family's extensive oil and gas interests. Then Brunton figured the oil holdings would, for all practical purposes, run dry by 1988. Therefore, he decided to move the company out of depleting resources into what he called "infinite resources"—like information and publishing—provided they would throw off approximately the same

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amount of cash.

International Thomson was already in publishing with its newspapers. So Brunton and Brown set about identifying high-profit publishing niches. Brown decided that certain markets, for example, medicine, financial services and defense information, would do well, come what may. The company wanted publications that could be extremely profitable from subscription revenue alone, which, it hoped, would mean they would be relatively insulated from recessions and the vagaries of advertising. And they looked for publications that gather information that could be profitably repackaged—*Jane's Fighting Ships*, for instance, which begat *Jane's Defence Weekly* and a battalion of other military publications. Line extension, it is called in the packaged goods business.

Brown spent more than a year scouring libraries for likely targets—leading publications in industries with staying power. The company then launched a $1.5 billion acquisition program, more than half of it spent in the last two years. Thus, as oil revenues dwindled, publishing revenues climbed fast.

Its philosophy: Buy the market leader, even in a specialized field, and then you can afford to pay for the acquisition. This beats old Roy Thomson's strategy of buying the only newspaper in a small market and then raising profits by trimming costs.

Does International Thomson pay what looks like exorbitant prices for acquisitions? Yes. Take last year's acquisition of Associated Book Publishers for $340 million—three times the share price before the legal and textbook publisher went into play. But here was another niche publisher with the potential for charging higher rates and for creating line extension products. At any rate, there's no dilution involved, since International Thomson always pays in cash.

Of course the accounting helps make all this work. Take a look at the balance sheet. Most of Thomson's debt is denominated in sterling, so it can be funded by oil and gas income and by interest earnings on the huge float from prepaid package tours. That means the financial statements are almost perfectly insulated from currency fluctuations. It also leaves the cash flow from the publishing business free for more acquisitions.

Recent acquisitions have pushed publishing rights and goodwill to $1.4 billion—which, under U.S. accounting rules, would mean a heavy hit to earnings as these intangible assets got written down. But last year Brown adopted Canadian conventions, which do not require that publishing rights be written down (even though results are reported in U.S. dollars). Result? An annual boost to operating income of $21 million, U.S.

Then there's the nifty currency play built into the common shares: Shareholders can take their dividends in sterling or dollars, a handy device to make tax planning a little easier for Ken Thomson.

This is a highly decentralized empire. "There's a big emphasis on making the numbers," says Peter Sprague, who helped set up the business publications division and is now a broker. However, those numbers, in monthly reports, are the only contact the companies have with the small headquarters staff of about 20. Make your numbers and they leave you alone. Miss your numbers and you are out.

Sometimes this numbers orientation and neglect of operations backfire. Consider *Consumer Electronics Monthly*, which was the leading electronics retailing publication in the U.S. when Thomson bought it seven years ago. Thomson kept the original owner on the payroll, but he felt bored in the new organization. He soon left to start a competing publication. Now, once again, he dominates the field with his own book. The Thomson magazine is struggling to survive.

"When they're in a market where they dominate, Thomson does quite well," says Efrem Sigel, an industry consultant. "But where there's competition, they can have problems. There simply isn't enough nonfinancial management in the company."

The company's huge cash flow will continue to fund a steady course—buying publishers, getting oil revenues back on line and building the travel business. So far, in spite of an occasional management misstep, the Thomson family can hardly complain about the way its crew of accountants is running things. ■

Global Natural Resources is a wild and curious company even by Houston's freewheeling standards.

And the stock is still up

By William P. Barrett

THIS MAGAZINE doesn't publish all that many company stories that require interviews with morgue attendants and police detectives. But there aren't many outfits like Houston-based Global Natural Resources Inc., an American Stock Exchange-listed outfit with $29 million in 1987 revenues.

Global President John R. Dempsey left in mid-May after the company said he was caught embezzling about $100,000 in equipment and services for his ranch. A month later he was found shot to death at his suburban Houston home. Homicide detectives called it a suicide. Oddly, just six years earlier, a director named Erskine Carter, who then controlled the largest single block of shares, was also ruled a suicide after he fell from a New York hotel window.

The Dempsey affair may not have ended with his death. Global's new chairman, a former New York banker named John M. O'Mara, says management is still investigating "one aspect" concerning the ex-president, but O'Mara will not spell it out.

Meanwhile, over in civil court, a former Global employee claims in two lawsuits that the company fired him after he insisted on adhering to some as yet unspecified "ethical standards" and tried to investigate allegations that Global was stealing oil. Global denies any wrongdoing.

None of this commotion should be

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Global owns an eclectic collection of oil and gas properties, including leases in Kansas' booming Hugoton gas field, in East Texas and in Indonesia, as well as nearly 1 million acres in northern Canada. These far-flung holdings, in fact, are probably the main reason investors have recently been attracted to Global's shares, which have gone, on rising trading volume, from 4½ in mid-January to a recent 6⅛.

surprising, given the origins of this rumor-strewn company. Global was founded in 1970 by the notorious Bernard Cornfeld and later dominated by fugitive financier Robert Vesco after it was spun off to shareholders. Vesco's Investors Overseas Services soon cratered amid claims of massive fraud. Vesco was last sighted in Cuba.

One quaint holdover from the Vesco years: Some 15% of Global's 22 million outstanding shares are in bearer form—they are unregistered and no one knows who owns them. Some say Vesco or other unsavory characters are among the holders.

Behind all these curious goings-on appears to be a company with real assets that is getting by in the depressed oil and gas exploration business. Global has made money on operations only once in the last four years, all told lost $2.2 million in 1987 and has never paid dividends. Still, it has maintained a steady, even modestly successful exploration program that more than replaces the oil and gas that it sells. The company also has made some smart acquisitions.

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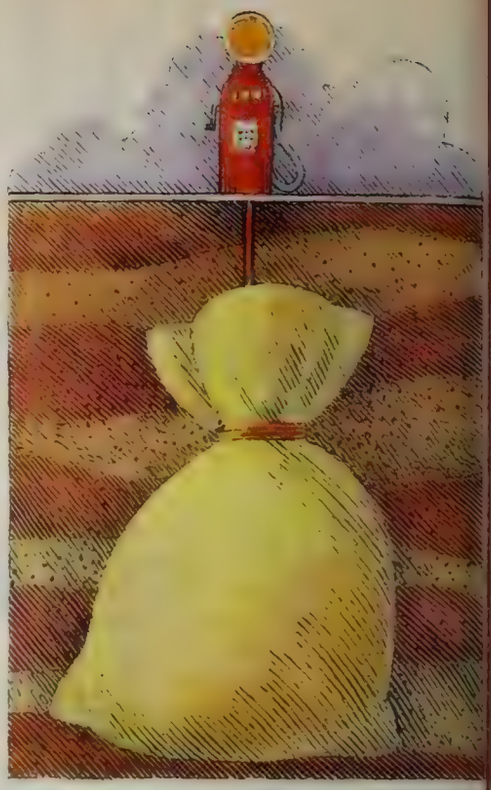
They are almost certainly correct. After all, Global has nearly $50 million in the bank, twice as much equity as debt, and a decent cash flow, though that has been declining of late because of higher operating costs. True, some of the assets are hard to value, most notably the Canadian interests, unexploitable now because of high removal costs and low energy prices. But most analysts ignore the Canadian leases anyway, generally estimating that the company is worth at least $8 a share without them.

At any rate, Global now has a new president, the fourth in five years: veteran Texas oilman Roger C. Chapman, former partner with ex-Texas Governor John Connally in recently restructured Chapman Energy Co., which they no longer run. Chapman is well known in Texas oil circles, but



Chas B Slackman

he brings a past. Just last December a Houston jury ruled he had defrauded investors, and ordered payment of more than $3 million, much of it in punitive damages.

Chapman had set up some energy exploration limited partnerships. According to court records and news accounts, he was accused of secretly selling wildly overpriced supplies to the partnerships from other companies he controlled. Chapman now won't talk about the case, which was settled out of court on undisclosed terms and not appealed.

But he will talk eagerly about Global. At a shareholders' meeting in late August—delayed two months because of the Dempsey matter—Chapman declared: "We will have some important revenue increases."

Curiously, some corporate insiders seem to be cashing in. A few weeks before the meeting, director John E. McFarlane, son of fellow director and former chairman J.W. McFarlane, sold 750,000 shares—three-fourths of his stake and 3.3% of Global—for $8 a share. The buyer was Prospect Group Inc., an aggressive New York leveraged buyout firm. "Just diversifying," McFarlane says. Recent SEC filings indicate at least four other insiders have sold this summer. Whether these transactions were simply profit-taking on strength in the stock or indicative of future bad tidings isn't clear. However, insider ownership has been cut in half, to less than 5%, making a takeover defense difficult.

What's going on? Darned if we know, but that's true of a lot of things in the great state of Texas. ■

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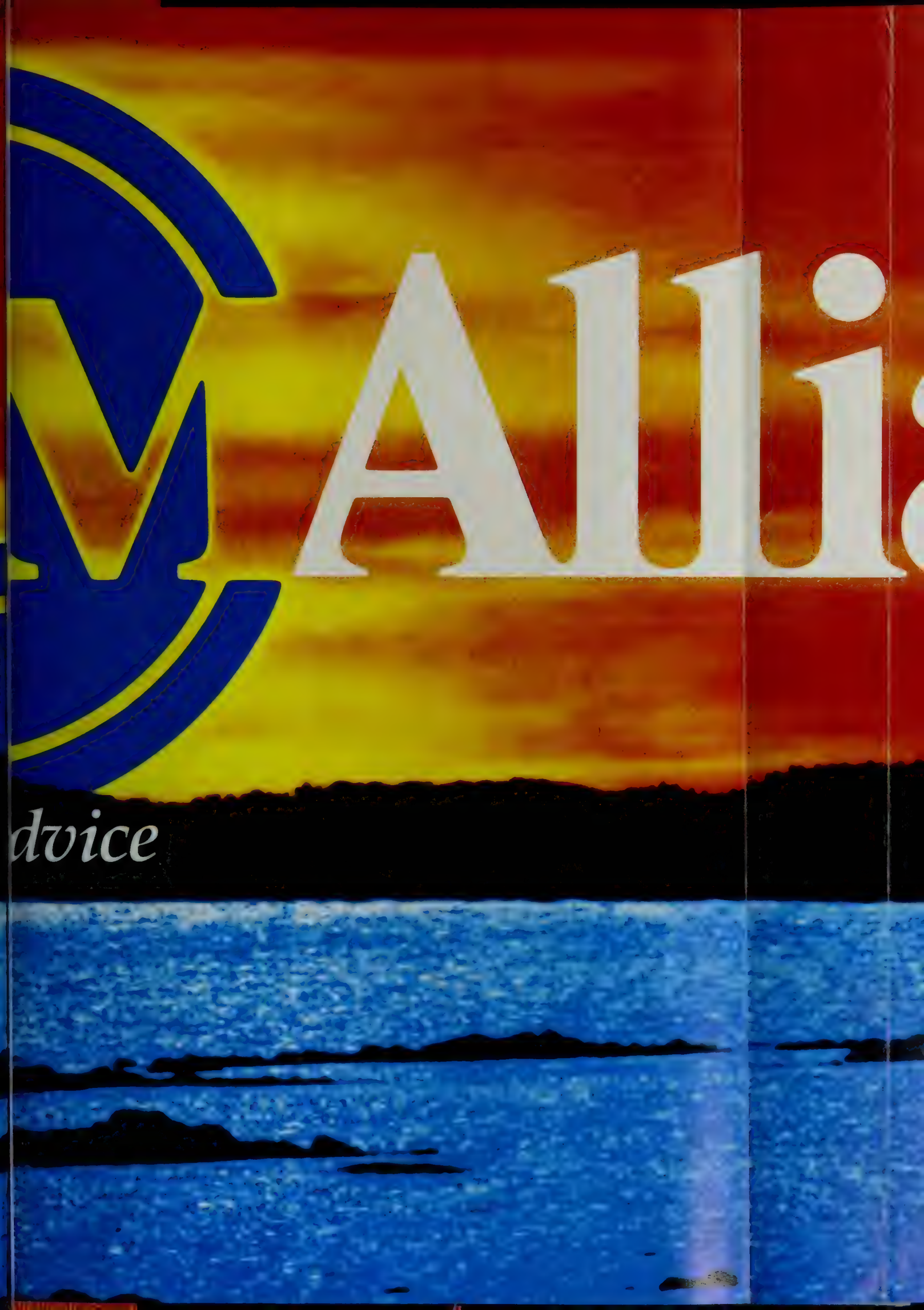
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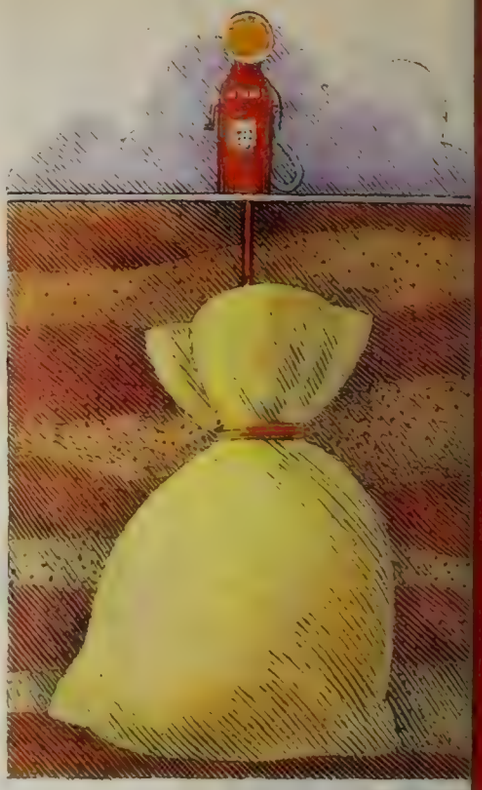
Global owns an eclectic collection of oil and gas properties, including leases in Kansas' booming Hugoton gas field, in East Texas and in Indonesia, as well as nearly 1 million acres in northern Canada. These far-flung holdings are probably the main reason investors have recently been attracted to Global's shares, which have gone from 4½ in mid-January to a recent 6⅛. About a third of that 36% runup has come since Dempsey's suicide on June 20. Reported first-half earnings of $2.1 million is another reason. But mainly some folks on Wall Street are plainly convinced Global is worth more than its recent market capitalization of about $140 million.

They are almost certainly correct. After all, Global has nearly $50 million in the bank, twice as much equity as debt, and a decent cash flow, though that has been declining of late because of higher operating costs. True, some of the assets are hard to value, most notably the Canadian interests, unexploitable now because of high removal costs and low energy prices. But most analysts ignore the Canadian leases anyway, generally estimating that the company is worth at least $8 a share without them.

At any rate, Global now has a new president, the fourth in five years: veteran Texas oilman Roger C. Chapman, former partner with ex-Texas Governor John Connally in recently restructured Chapman Energy Co., which they no longer run. Chapman is well known in Texas oil circles, but



Chas B Slackm

he brings a past. Just last December Houston jury ruled he had defraude investors, and ordered payment more than $3 million, much of it i punitive damages.

Chapman had set up some energ exploration limited partnerships. Ac cording to court records and news ac counts, he was accused of secretl selling wildly overpriced supplies t the partnerships from other compa nies he controlled. Chapman no won't talk about the case, which wa settled out of court on undisclose terms and not appealed.

But he will talk eagerly about Glol al. At a shareholders' meeting in lat August—delayed two months b cause of the Dempsey matter—Cha man declared: "We will have som important revenue increases."

Curiously, some corporate inside seem to be cashing in. A few week before the meeting, director John McFarlane, son of fellow director an former chairman J.W. McFarlane, sol 750,000 shares—three-fourths of h stake and 3.3% of Global—for $8 share. The buyer was Prospect Grou Inc., an aggressive New York leve aged buyout firm. "Just diversifying McFarlane says. Recent SEC filing indicate at least four other inside have sold this summer. Wheth these transactions were simply profi taking on strength in the stock indicative of future bad tidings isn clear. However, insider ownership h been cut in half, to less than 5% making a takeover defense difficult.

What's going on? Darned if w know, but that's true of a lot of thin in the great state of Texas. ■

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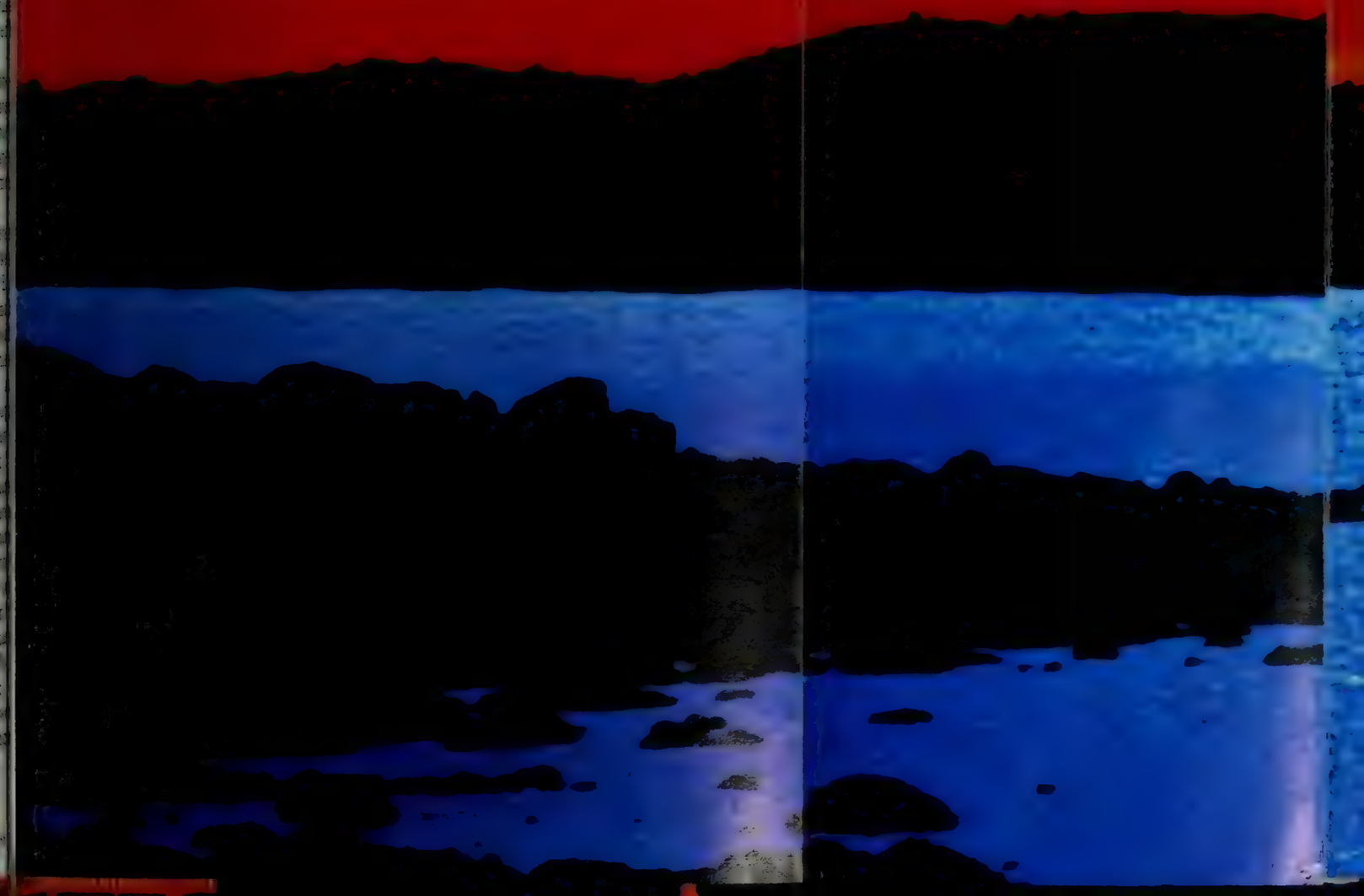

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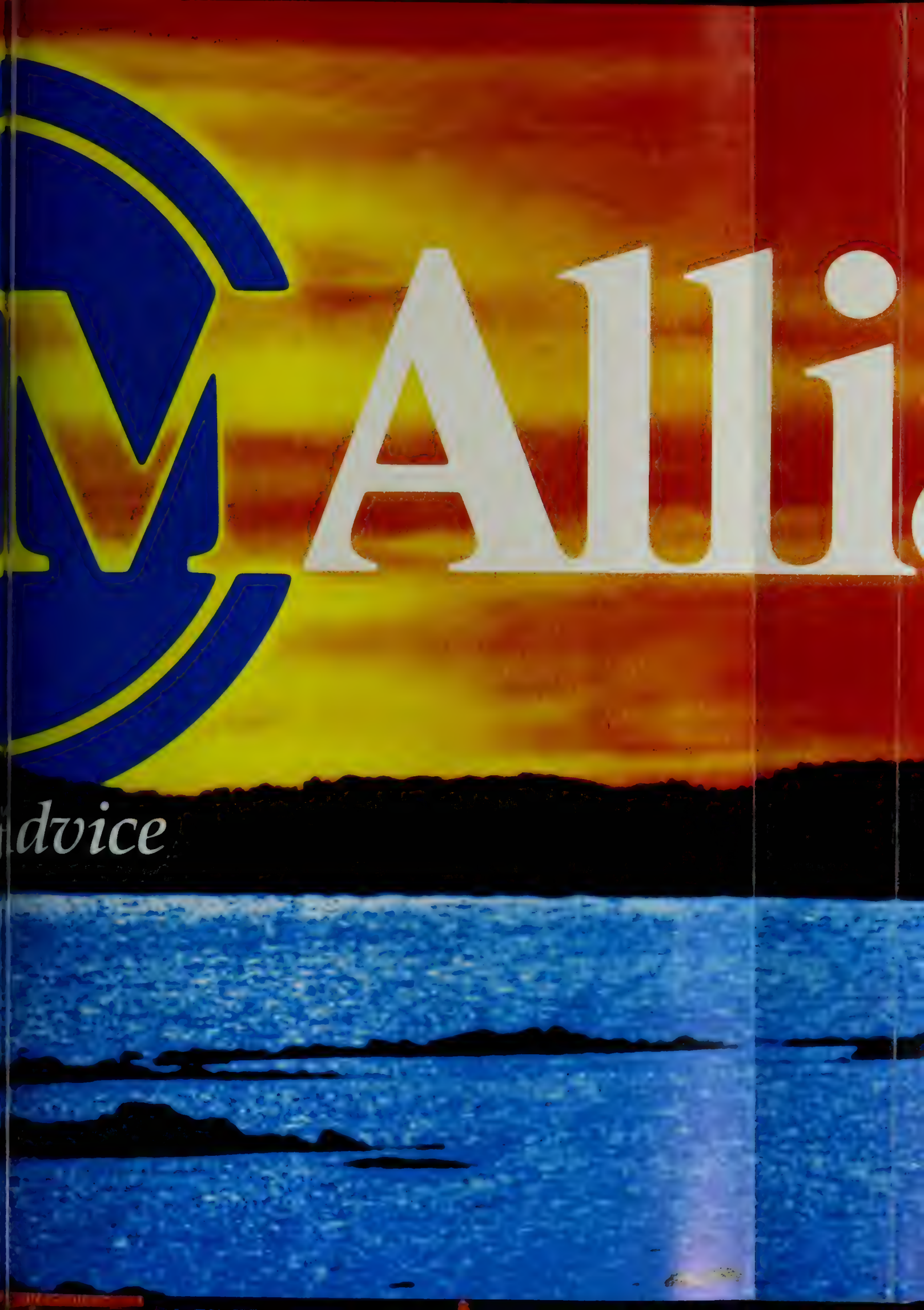
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An abandoned nuclear plant is converted to coal. The utilities take a writeoff and the public pays. Does it make sense?

A salvage operation

By Robert T. Grieves

BEGUN IN 1972 and shuttered a decade later, the 800-megawatt Wm. H. Zimmer Generating Station nuclear power plant near Cincinnati, Ohio is buzzing with activity again. Last March, after much debate and hand-wringing, Zimmer's three-utility consortium of owners—Dayton Power & Light, Cincinnati Gas & Electric and Columbus Southern Power, a subsidiary of American Electric Power—began to convert the facility to the burning of coal. The cost will be $1.9 billion—on top of the $1.7 billion already spent on Zimmer.

Why throw good money after bad? Because, by converting the plant, the owners hope to salvage some of the money they spent in the first instance. Explains Peter H. Forster, 46, chairman of DPL Inc., the holding company of Dayton Power & Light and the driving force behind the conversion, "The choice was either take a hit or go down a path that would wipe us out."

It is one of the great industrial tragedies in America. Elsewhere in the world—in Japan, in France, in Great Britain—nuclear power plants are making a growing contribution to their nation's prosperity. Not so here. With tens of billions of dollars invested in nuclear plants that can produce electricity without causing pollution, fear and politics are keeping these potentially valuable assets idle.

Meanwhile, the need for electricity grows. The Department of Energy estimates that the current supply of electric power in the U.S. is somewhere around 590,000 megawatts annually, a scant 30,000-megawatt cushion above current demand. At present rates of economic growth, that cushion will be gone by the mid-1990s, and the U.S. will be short by as much as 100,000 megawatts by the year 2000.

Right now the prospect for reopening the shuttered plants looks dim. Many of the plants are thus rendered utterly useless. But a few, such as Zimmer, have the basic elements for successful conversion to fuels that, although pollutants, are politically acceptable *(see story, p.128)*. These plants have: 1) ready access to an alternative fuel source such as coal, gas or hydroelectric power; 2) a cooperative regulatory environment; and 3) a largely completed facility with the basic electrical generating equipment already installed.

In Zimmer's case the extra $1.9 billion will buy the owners generating capacity for 1,300 megawatts of electricity. That is roughly 60% more than the nuclear plant would have produced. One reason for the added output is that 50% of the nuclear plant's steam turbine system, which had already been completed when the plant was abandoned, is now being incorporated into the new facility.

Although the conversion will save on labor costs, it will increase fuel costs. But the cost of operating the new plant will be about the same—roughly 2 cents per kilowatt hour—as what had been anticipated for the old nuclear plant. That's because new federal safety regulations, imposed in the wake of Three Mile Island, require twice as many safety-related employees at a nuclear plant—roughly 600—as at a non-nuclear site. Also, routine maintenance of nuclear plants has become time-consuming and more costly.

As a coal-fired plant, Zimmer will buy Ohio coal at about $30 a ton, consuming 3.5 million tons a year, or roughly 10% of Ohio's annual production. That should give the state's languishing coal industry a boost. Meanwhile, an elaborate scrubber system will eliminate more than 91% of the sulphur dioxide from the plant's exhaust gases. Thus, Zimmer can burn cheap coal.

To date the five-member Public Utilities Commission of Ohio has agreed in principle to let the consortium recapture up to a total of $3.6 billion in rate increases, beginning in 1991, to pay for the facility. But the commissioners have not let Zimmer's owners off the hook entirely. Thus, they are forcing the consortium to write off against earnings some $860 million of the $1.7 billion that had been spent on the nuclear plant.

The writeoffs mean reduced earnings for both Dayton Power and Light and its partners, while the public faces the prospect of higher electricity charges. But that's the situation the American public has gotten itself into with its often strident opposition to nuclear power. ■

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Peter H. Forster, chairman of DPL Inc.
The choice was to take a hit or get wiped out.

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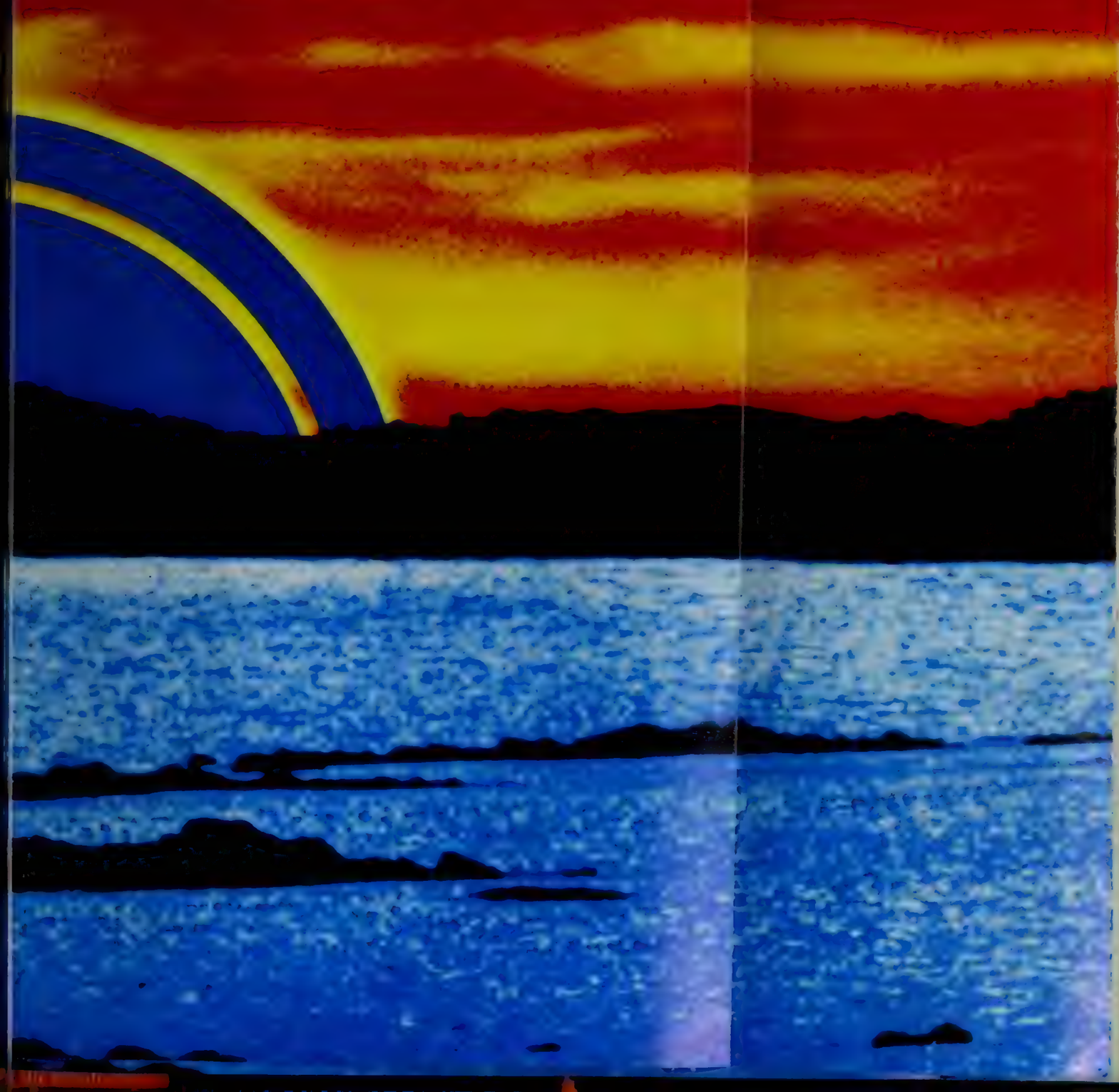

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Reebok's no longer anything special. Just another company reckoning with a maturing market, rising costs, sharp competition and fickle fashion.

Has the runner stumbled?

Reebok chairman and founder Paul Fireman Seth Kessler Picture Group

Think of the shoe business today as show business.

By Gretchen Morgenson

THE AIR IS mighty thin up there where Reebok International sits, high atop its athletic shoe pedestal. Barely ten years old, this Canton, Mass. footwear and apparel phenomenon did $1.4 billion in sales—earning $165 million, or $1.49 a share, in 1987. In only five years Reebok increased sales 400%; its stock zoomed, adjusted for splits, from 5⅝, when it went public in 1985, to 25.

But that was last year. No company can possibly sustain such staggering growth on its now huge base. Gone are the days of doubling and tripling in net income.

Wall Street and management remain upbeat about Reebok's future. Most analysts expect Reebok to maintain 15% to 20% growth rates into 1989, which, on earnings of $165 million, would indeed be impressive. While well down from its 1987 high of 25, the stock at $14 a share still has a market capitalization of $1.6 billion.

Is that market capitalization reasonable? Are Wall Street's high expectations justified? Maybe not. Reebok's Freestyle aerobic shoe became the largest-selling shoe in history, a tremendous fad. But fads always fade.

The market for athletic shoes is slowing. The National Sporting Goods Association forecasts sales of $3.58 billion in 1988, an increase of only 4% over last year. In the mid-Eighties athletic shoe sales grew at around 10% annually, 12% in the early Eighties.

Reebok's revenues mirror this trend. Sales in the company's Reebok brand almost trebled in 1986; last year they increased 18%. In the first half of 1988 sales came in roughly 15% higher than in the same period last year. Meanwhile, sales at Nike and Stride-Rite, two of Reebok's formidable competitors, are on the rise. Nike recently showed a 66% increase in sales over its third-quarter 1987 figures, and Stride-Rite boosted first-quarter sales 22% over last year.

Of course, the Reebok brand is not all the company owns. Management has diversified somewhat. Last year the company acquired Rockport Co., a manufacturer of casual dress and walking shoes, and Avia, another athletic shoe concern. Reebok has also ventured, albeit unsuccessfully, into sports apparel.

At the moment Reebok's acquisitions are looking good. Rockport and Avia are the company's biggest growers, in part because they were relatively small when taken over. In the first half of 1988 Avia sales increased near-

ly 47%, to $44 million; Rockport sales grew some 11%, to $37 million. Only trouble is, profit margins on the two new brands are much lower than on the Reebok brand. Analysts figure that the company has to sell as much as 1½ pairs of Rockports to equal its earnings on one pair of Reeboks—so earnings gains from the acquisitions are slight.

Meanwhile, the company's costs are rising on almost all fronts: Labor in Korea, where most Reebok shoes are made, is increasingly expensive. So is the price of leather. Overhead is swelling as Reebok staffs up for expensive, splashy advertising and marketing in a competitive environment where competitors also spend heavily. In the last six months of this year Reebok will spend $25 million in print and television advertisements; management expects to spend a similar amount next year. The campaign celebrates consumer individuality, oddly enough, considering that Reeboks were, for a time, part of a uniform for young people.

So far this year Reebok has held the line on increases, but the company says it will raise prices in the fourth quarter of 1988. Whether or not the consumer will balk is unclear. When you're no longer the hot item in a saturated industry, price increases can backfire.

Right now, all eyes are on the company's third-quarter performance. Reebok International President C. Joseph LaBonte says sales in the third quarter, Reebok's biggest because of back-to-school purchases, are "going very well."

They'd better be. The company's inventories have been steadily increasing in the past nine months, while turnover has been dropping. In 1986 Reebok turned inventory over fast—7.5 times a year. For 1987 that rate slowed down to 5.8 times, and in the first six months of 1988 inventory turned over a scant 2.5 times.

The company says it has been stockpiling inventories so as to avoid what happened last year, when work stoppages in Korea prevented Reebok from filling retailers' orders. But carrying these inventories costs money, again cutting into the bottom line. And what if they don't sell? Reebok would be forced to dump the shoes, slashing prices or selling to discount outlets. Neither would endear the company to its retailers.

Jon Goell

C. Joseph LaBonte, president of Reebok International
"Just because we're fashionable doesn't mean we don't perform."

Can't Reebok respond to rising inventories by slowing its production? Nope. The company jobs out almost all its manufacturing abroad, and regardless of sales, each month Reebok must make way for the millions of shoes it is committed to buy from manufacturers. From one manufacturer in Korea alone, for instance, Reebok has contracted to buy 2.3 million pairs of shoes per month until December 1990.

Although neither Reebok nor industry consultants will divulge market share figures, one market research firm has found that Reebok's market share in sporting goods stores is on the decline. This could be significant. Traditionally, shoes that have sold well in specialty sporting goods stores subsequently sell well at mass merchandisers. Even though most consumers are more interested in dressing "in" than in running times, they all seem to equate performance with fashion. This being so, any slippage of Reebok in the specialty stores could be ominous. "Fashion used to be the fashion," says Gary Jacobson, industry analyst at Kidder, Peabody. "Now performance is the fashion."

Reebok's LaBonte argues that Reebok merges fashion and performance: "Just because we are fashionable doesn't mean we don't perform." But many retailers, industry consultants, physical therapists, analysts and consumers seem to agree that Reebok is not the top performance shoe. That category, at the moment, belongs to Nike and New Balance. In fact, consumers cannot get enough of Nike's technologically advanced "Air" line. And the trendy new fashion footwear seems to be coming from L.A. Gear, a newcomer to the athletic shoe business.

Reebok management is not sitting still. Conceding that increases in its U.S. market share will be tough, it's pushing into overseas markets. In 1987 sales in Reebok's international division grew 400%, to $81 million. Further growth looks promising: The company estimates total foreign footwear sales at retail to be a $4.5 billion market. But Reebok will encounter competition wherever it goes, and breaking open world markets, country by country, won't be a cinch.

Reebok founder Paul Fireman has assembled a management team that is light on shoe industry experience. This, curiously, may have contributed to the company's success at a time of rapid change when the old verities no longer held. President LaBonte came to Reebok 18 months ago by way of Twentieth Century Fox and a venture capital firm; Paul Duncan, Reebok's chief financial officer, was chief financial officer at Towle, a giftware company. Frank O'Connell, president of Reebok North America, was, until January, chief executive officer of HBO Video, Inc.; at Reebok, he's the man responsible for advertising. Think of the shoe business today as show business.

But show business success is often ephemeral. Reebok has turned in a brilliant performance, but some smart rivals are pushing it hard. That $1.6 billion in market value rests on a shaky foundation. ■

What is the robbing of a bank to the owning of a bank, asked Bertolt Brecht in "The Threepenny Opera." The Sunbelt Savings fiasco in Texas suggests that the two really aren't all that different.

Gunbelt S&L

By Howard Rudnitsky and John R. Hayes

THE FEDERAL Home Loan Bank Board took a step toward alleviating Texas' problems by merging Sunbelt Savings, Independent American Savings, and six other busted savings and loans last month into a new entity, Sunbelt Savings, FSB.

It was a small but helpful step. Before the merger, to keep afloat, these thrifts had had to offer high interest rates for deposits, forcing other Texas thrifts to do likewise. Merged and recapitalized, the new Sunbelt Savings will use FSLIC funds and ease the Texas deposit premium.

But the merger brings only temporary relief. Broke itself, FSLIC didn't have the cash to liquidate these thrifts, so it recapitalized them with a $2.5 billion note, an IOU. After shuttering many of its 143 branches, Sunbelt will still incur sizable operating losses. Even the bank board admits that FSLIC may have to shell out at least $5.5 billion—for a group of S&Ls with only $4.8 billion in assets. That will make it the most expensive bank failure in U.S. history.

Where did all those billions go?

At Dallas-based Sunbelt, former chairman and majority shareholder Edwin McBirney III was pressured into resigning by federal regulators in June 1986. As Sunbelt was dying, McBirney apparently was living high on the hog. He and other insider shareholders had taken out nearly $13 million in common and preferred dividends in 1985 and 1986, according to charges in a $630 million lawsuit filed in June by the bank's new management. This when Sunbelt's capital—previously inflated by dubious bookkeeping—was rapidly evaporating.

Earlier, the suit alleges, McBirney and other defendants had induced investors to buy $9 million in preferred stock by selling them 40% of Sunbelt's $85 million headquarters for $10 million in notes. That is, to bolster its capital, Sunbelt gave away $24 million to get $9 million.

Ed McBirney and five associates took over smallish Sunbelt in 1982 and expanded it wildly over the next few years. That's the way things were done in Texas in those days. The sky was the limit; expand first, worry later. Sunbelt aggressively sought deposits by offering high interest rates. Deposits grew from $190 million to $3.2 billion in just four years.

That growth helped support McBirney's lavish lifestyle. Dressed as a king, he would reportedly serve lion and antelope to hundreds of guests at his palatial Dallas home. Sunbelt's bill for Christmas and Halloween parties in 1984 and 1985: $1.3 million. That includes $32,000 to Mrs. McBirney for orchestrating the events.

Locally, Sunbelt was derisively known as "Gunbelt" because of its shoot-from-the-hip lending policies. For example, Sunbelt lent $125 million (secured only by raw land) to an inexperienced Dallas developer in his 20s, who proceeded to lose $80 million.

The lawsuit alleges McBirney and management were taking kickbacks in one instance diverting $805,000 of the bank's profits on a deal, and in another skimming $3.4 million, or nearly 50%, off a $7 million loan. They gave the worst deals to the bank but kept the few good deals. McBirney and his friends personally turned a $ million profit on two office building in Atlanta, a profit that rightfully belonged to the bank.

Far from being contrite, McBirney recently filed his own countersuit charging that new management "has been a complete and unmitigated disaster, resulting in damages . . . in excess of $1.28 billion." McBirney also claims Sunbelt's officers have "embarked on a plan of action to acquire or take over assets of Sunbelt for their own benefit and to the detriment of its shareholders."

Sunbelt was not the only rotten apple that ended up in FSLIC's basket. Another of the newly merged thrifts, Independent American of Irving, Tex., also gives off a bad smell. Its former owner, Thomas Gaubert, was replaced after driving it to insolvency through reckless lending practices. Independent, Sunbelt and Western Federal S&L would trade land deals among themselves at ever higher prices as a means of booking phony profits and making their balance sheets look better than they were.

All told, over $1 billion in complex loan participations were shared by the banks. That's why it made some sense to combine the insolvent banks into Sunbelt.

With busted First RepublicBank Corp., the FDIC was at least able to bring in some fresh private capital from NCNB Corp. FSLIC has tried to do similar deals, but no one would touch Sunbelt without unlimited loss protection from FSLIC. Thus FSLIC is going to be one of the biggest bank owners in Texas for years to come.

Conclusion: The U.S. taxpayer is going to be footing the bill for the reckless mismanagement that regulators tolerated in Texas during the glory years. ■

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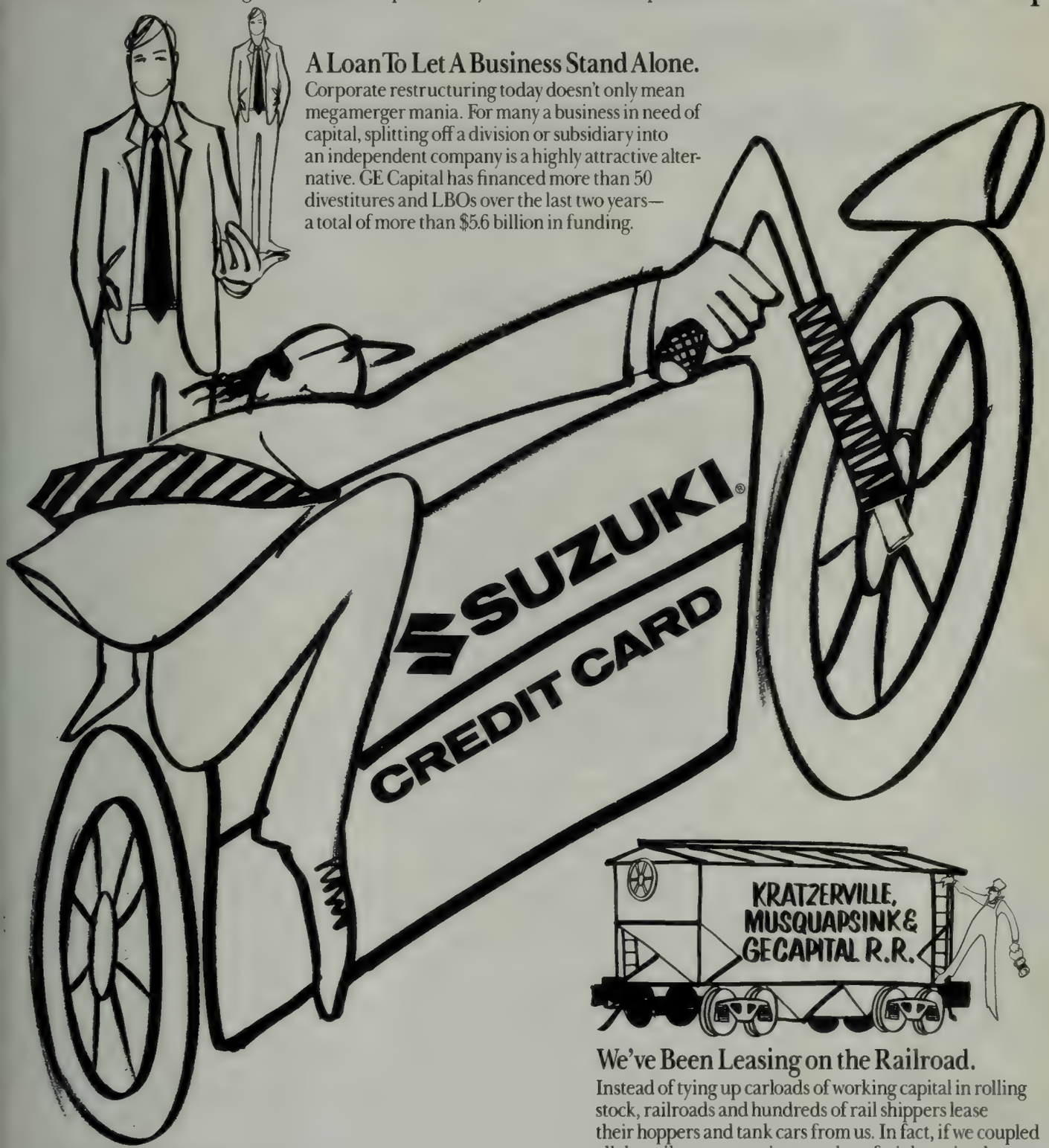

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GE Capital

As the biggest banks in Texas line up for federal bailouts, a lot of folks are figuring that MCorp must be next. Maybe not.

A story for contrarians

By Toni Mack

ONLY A CONTRARIAN would give Dallas' MCorp any chance of surviving as an independent bank. No sooner had the Federal Deposit Insurance Corp. completed its massive bailout of First RepublicBank than the cynics turned their attention to MCorp, the other big Dallas bank. Every other top-tier Texas bank has now been bought or bailed out—in every case by out-of-staters, a double blow to Texas pride. Therefore, the natural question: Isn't it MCorp's turn to go under?

After all, in the last eight weeks MCorp's common stock has dropped by a third, to 1½, 10% of book value. More: MCorp's nonperforming assets are 14% of loans and growing. And the bank lost $232 million in the first half before a $215.5 gain on the sale of its data-processing outfit. Those are scary numbers. "Can MCorp Avoid a Bailout?" wondered *American Banker*, concluding it probably couldn't.

But MCorp, while it is certainly sick, is far from moribund. It has an excellent chance of surviving as an independent and Texas-controlled bank. MCorp still has $829 million in equity, as against $20.1 billion in assets, a pretty good ratio. Even if it keeps on losing $232 million every six months, that equity will last 3½ years. Gene Bishop, MCorp's tenacious chairman, doesn't have quite that long to scrape up new capital. But MCorp's substantial solvency appears to give him a year to [illegible]

No question MCorp will have to attract fresh capital and its shareholders will suffer some serious dilution of their equity. MCorp will need more equity to balance further loan losses and to grow.

But last winter Bishop was doing fine raising capital—with no federal assistance—until First RepublicBank's spectacular deterioration spooked investors. More than $200 million of $250 million in convertible preferred stock had been spoken for, according to a potential investor. The deal fell apart after the extent of the debacle at First RepublicBank became apparent.

Will van Overbeek

MCorp Chairman Gene Bishop
Looking like a survivor.

"There are still a large number of investors, particularly in Texas, who would be delighted to be involved in a recapitalization plan," says one who wanted in on last winter's deal. MCorp has not yet announced its new program for raising capital. "Exploring all possibilities" is as specific as it gets these days. For the moment those possibilities are few, but that could change if MCorp continues to show staying power.

Gene Bishop's major problem now is spelled FDIC. He has to convince any new investors not only that his bank is a decent enough risk but also that the federal agency will not step in prematurely and wipe out their investment—as seems to have happened even with the bondholders at First Republic. "How do you generate capital when a regulator, by the stroke of a pen, can jerk it all away?" fumes Jess Hay, chairman of Lomas & Nettleton Financial Corp. and an MCorp director.

And it's tough to generate capital for a going bank with lots of bad loans when the Feds are stepping up and, as in their handling of First City and First Republic, supplying capital to make up for the bad loans. "Would you give Gene Bishop money privately to absorb risk that the government seems to have a propensity to absorb?" asks Michael Morrow of Sheshunoff & Co. In short, investors have been spoiled. They have grown accustomed to having the feds hand them Texas banks with relatively healthy balance sheets.

Still, there are two other things that could upset Bishop's applecart: a run on deposits and a sudden decay of the loan portfolio. So far MCorp's deposits are holding up. The average deposit balance for 1988's first half is down just 3% from 1987. Of course, a run is most likely if MCorp's portfolio caves in. How likely is that? The bank is now in the midst of its regularly scheduled annual examination by the Office of the Comptroller of the Currency. Seeing as how the feds gave their misguided blessing to the First RepublicBank merger reportedly based, in hindsight, on a too-cursory review, it's quite likely the Comptroller's Office is going through Gene Bishop's books rather carefully. So far say our sources, no major problems have emerged. The preliminary results are due to be reported at the end of September.

Meanwhile, Bishop, a low-key man of 58, has emerged as one of the toughest executives in Texas. In ten years, from 1975 to 1985, he transformed MCorp from a $1 billion (assets) weakling of the Dallas market to a $22.6 billion titan of Texas banking. Since then he has done what none of his peers did: remained at the helm of his bank, answering to no out-of-state master. Assuming MCorp can be recapitalized without losing its independence and its local character, Bishop will have the only truly Texan big bank, which will count for a lot among Texans.

Forget the naysayers. MCorp—and Gene Bishop—look like survivors. ■

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Out of GM's design shop are pouring unique and good-looking new cars. The race is on to get them to market.

Putting the flair back

By Jerry Flint

THE FUTURE OF General Motors was on display. Here was a Cadillac Seville scheduled to debut in the 1990s. Against the wall was a sleek Chevrolet Caprice. There was a large, luxurious Buick with a single word that said it all, sculpted on the fender in chrome: Roadmaster. There was an Eldorado that looked like an Eldorado, long and lean once again.

There were also two spectacular, spacious new minivans. The stunning Pontiac version will likely be the most futuristic-looking vehicle on the road.

Only one problem: The Seville and the Chevy won't be out until after the turn of the decade. The vans will be out by mid-1989 but probably won't be in full production for another year beyond that.

FORBES was getting a rare pull-the-covers-off-the-new-stuff tour of the GM design center. A car buff's fantasy. No question: After years of faltering, GM styling is coming back.

Now comes the next problem: getting the new styling to market. "I can tell you we can't afford to let these cars sit around the halls getting old," says Charles Jordan, vice president of the design staff. Jordan took over the job two years ago, just as GM's look-alike styling and quality problems began cutting into sales and profits.

The first of GM's new-look cars went on the market last year. One set of these, the smaller Chevrolets (Beretta and Corsica), are bestsellers; the others, two-door midsize coupes sold by Buick, Olds and Pontiac, are doing no more than so-so. "We've suffered," Jordan admits. "They [the new-look cars] were supposed to be out with [Ford's] Taurus/Sable." (The Ford models were in the showrooms in December 1985.)

Jack Van Antwerp

General Motors design chief Charles Jordan
"They won't be flat, they won't be fat."

The first of the four-door versions of the new-look models, a Chevrolet, will be on sale next spring, to be followed by Buick, Olds and Pontiac versions over the following year.

Is the giant turning around? In the past three years its market share has fallen to around 36% from 44%. At the end of last year, with market share slumping toward 33%, the company chopped production and prices. The erosion has stopped, but it's likely that its North American auto operations were only just breaking even earlier this year. The profits GM will report this year—a comfortable $4 billion, or $11.50 a share—will come largely from cost-cutting, from European profits, from subsidiaries and from impressive truck sales.

Design chief Jordan, 60, with the look of a Detroit stylist—silver hair, a powder-blue double-breasted suit—admits the sins of the past. GM was spending its money on new factories and penny-pinching on design change. "We told them if the panels on the body are alike, the cars will look alike," he says. He recalls one day not so long ago when his mentor, the now-retired Bill Mitchell, who designed the GM cars of the 1950s and 1960s, came in and said, "What happened to you guys? You didn't do enough digging to know how to put the flair into the cars." GM's designers took that criticism to heart, Jordan says, and he vows: no more boring cars.

"By 1992 it will be pretty clear where we're going," Jordan says. "They [the new GM cars] won't be flat, they won't be fat and they're not jelly beans," says Jordan in a knock at Ford's rounded shapes which have won public approval.

For now, Jordan concentrates on dressing up today's fast-selling cars. He shows off a spiffed-up Chevy Beretta. This version has a big, hot, throaty engine stuffed into it. It's black, and all the chrome has been stripped off, and the seats are made of expensive Italian leather. Now Jordan has to sell it to Chevy management. Such design modifications can be the stuff of sales success.

General Motors insists that it will now cut its development time, from design decision to production line, to three years from six. And Jordan makes a promise: "In the old days you could tell a Cadillac a block away. In the new days you will, too." ■

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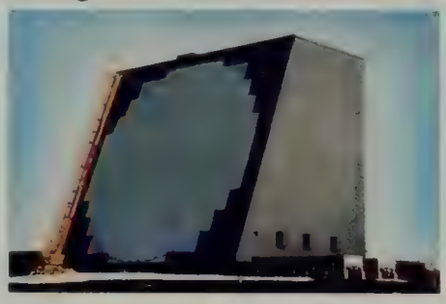

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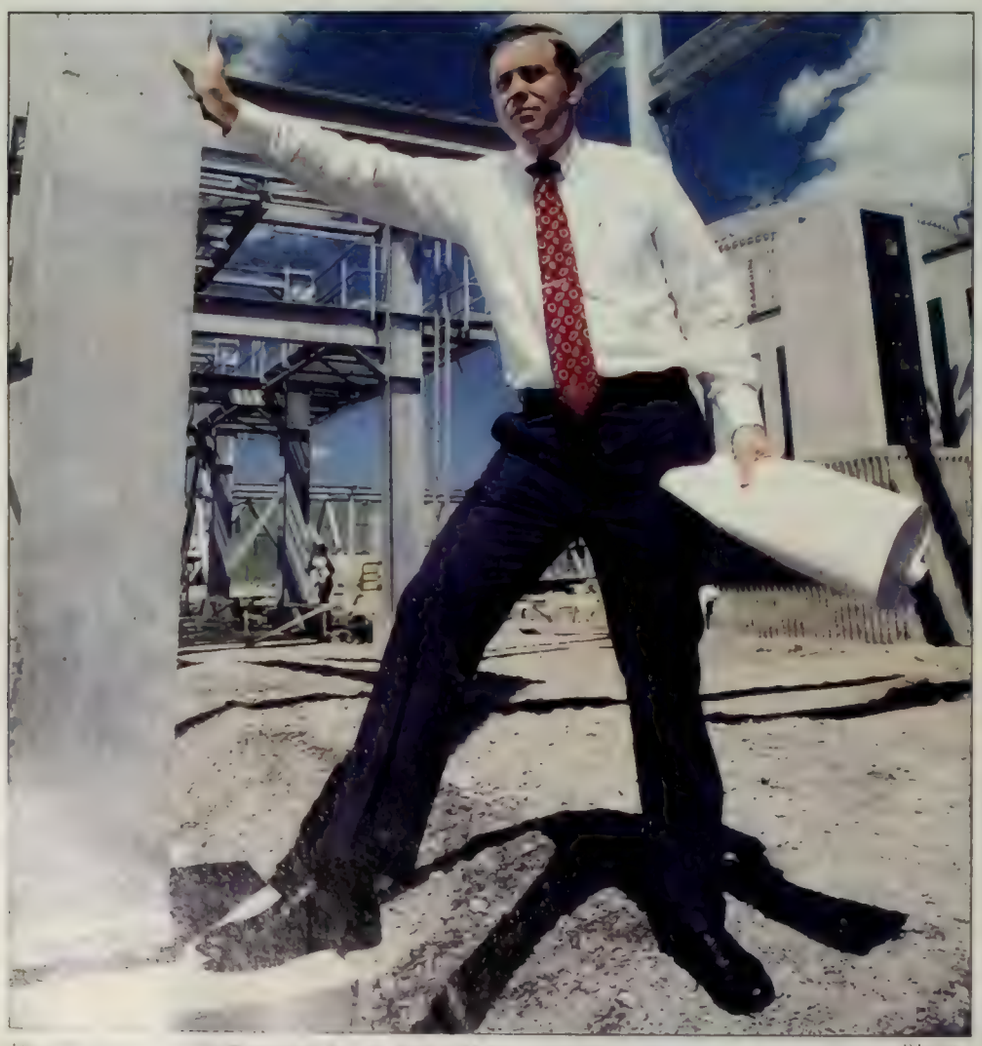
Where quality starts with fundamentals

CMS Energy has figured out a way to salvage part of its $4.1 billion investment in nuclear energy. If the deal works, stockholders may profit handsomely, and so may the utility's customers.

So near, but maybe not so far

By James Cook

THREE YEARS AGO, when William T. McCormick Jr. took over at Jackson, Mich.'s Consumers Power Co., he well knew that he was not gliding toward a graceful retirement. Consumers was in deep trouble. It had spent over $4.1 billion building a huge 1.3-million-kilowatt nuclear power station at Midland, Mich., and by mid-1984, with $1.5 billion yet to go, the company began running out of cash. Consumers abandoned the unfinished Midland plant, and the Michigan Public Service Commission saved the day with an emergency $99 million rate increase. So diminished was the company's reputation that Bill McCormick decided to start over with a new name; Consumers Power became CMS Energy Corp.



McCormick, here at CMS' ill-fated Midland plant
Consumers' Wall Street image was half the battle.

DEL COX

When McCormick, now 44, arrived from an American Natural Resources presidency, his first order of business was to repair the financial damage from Midland. Consumers had already suspended the common dividend and McCormick proceeded to cut costs to the bone and committed every cent of free cash to retiring CMS' mountain of debt and preferred. In the past two years McCormick has retired $628 million in preference stock, bought in or refinanced close to $3 billion in debt, some with interest as high as 18%. Result: a $67 million reduction in CMS' fixed charges and the elimination of $85 million in preference stock dividends.

With costs down and revenue steady, CMS' earnings went from 1985's $270 million loss to a $262 million ($2.19 a share) profit. But there was a catch: More than half those earnings were accounted for by $140 million in noncash credits.

Whence came those credits and how valid were they? Here's the story.

Last year's noncash credits represent the unpaid but capitalized interest on an imaginative scheme to convert at least a portion of CMS' ill-fated Midland nuclear plant into a money-making venture.

Consumers had written off $488 million of Midland's $4.1 billion cost in 1985, but instead of trying to recover the remaining $3.6 billion from rate payers, McCormick decided to use $1.5 billion in the plant's non-nuclear facilities—including an 800-acre cooling pond and a steam turbine—as the base for a 1,370-megawatt gas-fired cogeneration plant, reducing the amount the rate payers would have to shoulder to $2.1 billion.

The new plant would supply electricity to CMS and both electricity and steam to a Dow Chemical plant across the Tittabawassee River. "Some people jumped all over us for suggesting anything other than abandoning the plant," says McCormick, "but we projected we would need additional capacity by the early 1990s when we could get the cogeneration plant into operation, and everyone realized that it would be senseless to throw these usable assets away."

The scheme would require an additional $600 million investment, something CMS couldn't provide itself. McCormick solved that little problem by forming a partnership, Midland Cogeneration Venture, with the companies that would build, supply or use the plant—Fluor, Coasta

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*** The Standard & Poor's (S&P) 500 Index is an unmanaged group of stocks considered to be representative of the stock market in general.

Corp., Panhandle Eastern, Combustion Engineering, BBC Brown Boveri and Dow Chemical. In exchange for the usable Midland assets, CMS would get 49% equity in the project and $1.2 billion in 11% notes whose interest would be capitalized until the plant went into operation. The other partners would buy a 51% stake and the venture would borrow the additional money to build the plant.

The project got under way in April 1987, with completion expected in 1990. As a cogeneration project, MCV prices its power not on a rate-of-return basis but at the avoided cost of producing power from other sources, so that, if all goes well, MCV should earn a higher return on its investment than the 14% CMS is permitted to earn on its utility operations. "We would expect to earn more than that because it entails higher risks," McCormick says. "Hopefully, it will produce a big bundle of cash."

Midland has another big bundle coming from an agreement worked out last month with Bechtel, the contractor responsible for both the Midland plant and the Palisades plant finished back in 1971. Palisades would be reconstituted as an independent generating company, and Bechtel would acquire a 56% share. The deal will yield CMS $325 million, plus

The Midland Cogeneration Venture plant under construction at Midland, Mich.
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$100 million in settlement of all legal complaints over the Midland plant.

So, once the dust settles, CMS could well go from cash-poor to cash-rich: $425 million from the Palisades deal and $1.5 billion from the Midland notes (including more than $300 million in capitalized interest). The cash would come to $23.50 a share altogether, versus CMS' current stock price of $21.

McCormick has plenty of ideas about what to do with the money. He could continue to buy in debt, preferred and common shares. He could also expand CMS' highly successful oil and gas exploration company and develop a major position as a nonregulated independent power producer. (CMS already has a 49% interest in Oxford Energy, the tire-to-energy outfit.) He could even acquire another utility. The potential is considerable. As McCormick points out, reinvesting the $1.5 billion proceeds of the Midland notes at 15% would yield CMS over $200 million a year—nearly $2.75 a common share—pretax.

Sounds great, doesn't it? The rub is that the Michigan PSC probably won't decide until early next year how much of the $2.1 billion in abandoned plant CMS will be able to recover in its rates and how much MCV will be able to charge Consumers for its power. The PSC staff has recommended CMS be permitted to recover only $1.3 billion, which would force CMS to take an $800 million writeoff, and it has recommended a 3.47-cent-a-kilowatt-hour rate for the new plant's output, versus the 3.99 cents that CMS thinks is appropriate.

However, there are compelling reasons for the Public Service Commission to take it easy with CMS. CMS' service area is growing so rapidly that Consumers will soon need Midland's power. CMS' margin of reserve capacity is down to a mere 9%, little more than a third the level generally considered prudent, and will be down to 6% by 1990. For well under $500 million, CMS could double the capacity of the Midland Cogeneration plant and market its output to Consumers or to other power-short utilities. McCormick notes: "With that second-stage conversion, we could provide the state's electrical requirements for the remainder of the Nineties."

McCormick wants to convince Wall Street that CMS is once again one of the premier companies in the utility business. Says he, "We're only selling a little over three times cash flow, five or so times earnings. If we were completely out of the woods, we'd be selling at five times cash flow, eight, nine or ten P/E." ■

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Can you make money buying bonds on margin? Some closed-end fund customers think so, but they could have an ugly surprise or two if any of the bonds default.

Seductive spreads

By Jonathan Clements

CLOSED-ENDS HAVE BEEN one of the fund industry's few marketing successes in 1988, with $14 billion in new offerings so far this year. The latest sales gimmick: leveraged closed-end bond funds. These are closed-end funds that borrow money to buy bonds.

The very idea sounds like a contradiction in terms. Someone buying a bond fund wants to be a lender. That is, he has cash to invest and wants to earn interest. To be a borrower at the same time and pay interest seems self-defeating. It would be like taking out a loan and depositing the proceeds back in the bank to earn interest.

Such reasoning hasn't stopped investors from salivating over the leveraged bond funds, which boast yields as high as 15%. The five leveraged funds launched this year, three of them investing in junk bonds and two investing in municipals, are all trading at a premium. (A sixth fund is in registration.) Expect Wall Street to milk the concept for all it's worth. "I can almost guarantee you that there'll be a few billion dollars worth before the end of the year," says Douglas Dent, publisher of the Santa Barbara-based *Closed-End Fund Digest*.

How do you get a 15% yield by borrowing money only to lend it out again? It has to do with the interest rate spread between securities of differing maturity or differing credit quality. The idea is to sell, say, high-grade 5-year notes paying a pauper's coupon and then reinvest the proceeds in 20-year junk bonds with bulging yields.

Take the New America High Income Fund, launched in February by Patricia Ostrander (FORBES, *Apr. 18*). New America simultaneously issued stock of $212 million (net of expenses) and notes and preferred worth $184 million. That left debt and preferred at 46% of the fund's capitalization, just below an SEC ceiling of 50% and, more important, at a level acceptable to the credit rating people at Standard & Poor's. The notes got a AAA rating, allowing New America to offer a miserly 9% yield. The AAA auction rate preferred (not eligible for the 70% dividend exclusion for corporate holders) currently pays just 8.2%. Meanwhile the proceeds of both the debt and stock issues were invested in a portfolio of junk bonds yielding over 13%. Presto, a 15% yield for New America's stockholders.

Astute investors will see a familiar theme here. Borrow short and lend long. Borrow at high-grade rates and lend out at shaky-borrower rates. It always works beautifully until interest rates go up or your debtors start defaulting. But if and when that happens, the leverage works painfully well in reverse. Just this sort of spread-playing has sunk a significant fraction of the

Buying bonds on margin

A recent fad in the closed-end fund business is buying bonds on margin. The fund leverages its portfolio by issuing debt of its own or by issuing preferred. The result is to magnify profits—but also losses.

Fund	Leverage ratio[1]	Premium over net asset value[2]
Colonial Intermediate High Income	1.32	7.9%
New America High Income	1.87	13.3
Nuveen Premium Income Municipal	1.54[3]	6.5
Redwood High Income[4]	NA	7.5[5]
Van Kampen Merritt Municipal Income Trust	1.67[3]	7.5
Zenith Income	1.87	5.9

[1] Total assets divided by common equity. [2] Excess of share price over net assets per common share. [3] Reflects preferred not yet issued. [4] In registration. [5] Assumes 7% underwriting discount. NA Not available.

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Clever fund sponsors have even found a way to buy tax-exempt bonds on margin. The Nuveen Premium Income Municipal Fund and the Van Kampen Merritt Municipal Income Trust intend to do that by leveraging their muni portfolios with a preferred stock issue. Holders of the fund's preferred stock will get a well-covered, tax-exempt dividend that amounts to a first claim on the interest thrown off by the muni bond portfolio. What's left goes to the holders of the fund's common shares. It's another borrow-short-lend-long game. The high-grade municipal bonds in the Van Kampen Merritt portfolio mature in 20 to 30 years, whereas the adjustable-rate preferred, due out shortly, will be adjusted every month. Fine and dandy—unless interest rates go up, in which case the common shareholders get scalped.

All this pyramiding makes some market watchers nervous. "The closed-end fund industry has a very spotty record on knowing when to leverage," says Miami-based closed-end fund specialist Thomas Herzfeld. "Why weren't these bond funds brought to market in 1981, at the bottom of the bond market, rather than after a six-year rally?"

Herzfeld, who holds short positions in some of the funds, expects the premiums will soon disappear. With good reason. Bond funds tend to trade briefly at a premium and later sink to a 4% discount to net asset value, so investors would be ill-advised to buy at today's inflated prices.

Zenith Income Fund's manager, John Bianchi, defends his fund as a relatively safe alternative to bond funds that reach for yield by getting very long term or very low quality junk. But, as with trashy junk portfolios, so too with Bianchi's less trashy yet leveraged portfolio: Some of the apparent profit is an accounting illusion. If, like Bianchi, you borrow at 8.5% to buy a junk bond yielding 12.5%, you may think you have a 4% spread in your favor. But if 2% of all junk bonds become worthless every year, then you should treat the first two percentage points of interest received as a down payment against future capital losses. In true economic terms, the spread may be only 2%. And even that 2% could be swallowed up if interest rates climb.

If you're sure junk bonds are underpriced, and sure that interest rates won't go up, and like to speculate, buy Bianchi's fund. You could make a lot of money if the roulette ball lands on your number. But don't buy the fund because it has a big yield. Yield simply doesn't mean anything in a complicated speculation like this. ■

The Funds

One consequence of the drought in the fund business is that some promising funds now at the seedling stage will die off before they can sink their roots.

Shakeout

By Ruth Simon

THERE IS REASON for fund investors to lament the sufferings of small fund operators. If hard times persist and force small funds into liquidation or merger, some promising managers will go by the wayside.

Small funds are risky, but from among them typically come the biggest winners. Pennsylvania Mutual Fund had but $2.6 million in assets 14 years ago, as a powerful bull market got under way. Twentieth Century Select had only $1 million. Since inception it would have multiplied an original stake twenty-fivefold, with most of the gains coming while the funds were still small. By contrast, none of the four funds with $1.2 billion or more in assets in the 1974 FORBES fund survey has done better than a tenfold return.

"Typically most funds will slow down as they get bigger," notes Sheldon Jacobs, editor of the *No-Load Fund Investor*. Small funds tend to dominate lists of best-performing aggressive growth funds, Jacobs adds. He's not saying everyone should buy small funds, only that a venturesome investor aiming for a big win is not going to find it in a $3 billion behemoth.

But the obscure fund manager who might have been the Peter Lynch of the Nineties might not be around. The reason? Increased competition from big fund operators and the post-crash slump in fund sales.

"Everybody's very depressed," says Ronald Fielding, who runs a group of five funds with $60 million in assets. "A lot of small independents will go down the tube."

Some have already folded their tents. Small-company growth manager John Westergaard liquidated his Westergaard Fund last November after fund assets shrank from $30 million to $12 million. The Claremont Fund, established by two California economists in 1985, liquidated one of its three portfolios in March and the other two last month.

Other independents are scaling back expectations. Newsletter writer Louis Ehrenkrantz got into the business last spring, figuring he could raise $100 million his first year. His two funds now have just $4.7 million in assets, and he is subsidizing their costs with other ventures.

The table on page 136 lists some recent strong performers that could have a rough go of it. The Kaufmann Fund, a small-company growth fund, gained 46% in the first seven months of 1988. But it has just under $3 million of assets, and in today's climate this top-drawer performance is enough to attract only a trickle of additional shareholders.

"You can't earn a living on $3 million," says Lawrence Auriana, who took control of the fund with Hans Utsch in 1986. To keep expenses down, neither draws a salary, and they

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Acorns?

Many a mighty fund started out tiny but attracted big money as investors noticed its performance. These days, though, even a stellar performance isn't enough to get investors to beat a path to your door.

Fund	Assets[1] ($mil)	Total return[2]	Portfolio manager
Kaufmann	$2.7	45.7%	Lawrence Auriana, Hans Utsch
Monetta	2.4	16.9	Robert Bacarella
Pasadena Growth	14.8	24.7	Roger Engemann
Rochester Tax Managed	16.3	18.9	Ronald Fielding
Rockwood Growth	.6	25.6	Ross Farmer

[1]As of June 30, 1988 [2]Increase in net asset value from Jan. 1 to July 28, 1988

Source: Lipper Analytical Services.

have traded their high-priced New York law firm for a sole practitioner in Doylestown, Pa.

Since the crash, investors have pulled $5.4 million, about 15% of assets, from the four stock and convertible bond funds in Fielding's Rochester group. Even Fielding's top performer, the Rochester Tax Managed Fund, has not grown, despite a 20.5% total return since January. Without a double-tax-free bond fund, which has taken in $13 million in new money, the group would be in trouble.

"We got $1 million a week for a few weeks [after we started]. It looked like we would become a $40 million or $50 million fund in one year," recalls Al Frank, whose Prudent Speculator Leveraged Fund debuted three months before the market collapsed. More than a year later, Frank's fund has just $10.5 million in assets and little new money.

Not all small funds are winners, of course. The Bowser Growth Fund, which invests in stocks selling for $3 or less, turned in a minus 32% return for the 12 months through June. With that record, it's no surprise that the fund has a mere $2 million in assets.

But the slowdown in fund sales has exacerbated another problem: the independents' loss of business to the giants. "The real money has flowed into the big fund families and the brokerage firms that have the resources to hype their products," says newsletter writer Gerald Perritt, who started the Perritt Capital Growth Fund this spring (recent assets, $1.6 million). "The small funds just have not done well in the last couple of years in attracting investor attention."

Size has its advantages. Fidelity spent $4.3 million on advertising in the first quarter of 1988, more than the total assets of some small funds. And mom-and-pop operators, no matter how good their investment strategies, can't match Fidelity's 51 walk-in offices and 24-hour toll-free telephone service.

"It's tough to compete with them on all scores," says John Cannon, who sold his four funds to the American Medical Association in 1986 after annual marketing expenses climbed from less than $100,000 to $250,000 in just three years. "We were spending more, racing harder and falling back," Cannon recalls. Even with assets of $25 million, a $250,000 overhead—if it's not absorbed by the sponsor—will take a fairly stiff 1% off the annual performance.

Like Cannon, some fund managers will affiliate with deeper pockets. Others are likely to leave the race entirely. Either way, a few good ideas won't get heard. ■

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Should financial institutions be required to mark more of their assets to market rather than carrying them at original cost? The Financial Accounting Standards Board thinks they should.

Will the truth hurt?

By Penelope Wang

JOHN HANSON SAVINGS BANK received a shock in March. The Federal Home Loan Bank Board ordered the Beltsville, Md. thrift (assets, $971 million) to "mark to market" some mortgage-backed securities and restate its 1987 earnings accordingly. The thrift had maintained that the securities were long-term investments to be held to maturity, and thus should be accounted for on its balance sheet at their original cost of $162 million. But the bank board viewed them as short-term investments that had to be marked to market, since the thrift had been trading actively in such securities for quite a while. The resulting adjustment turned the thrift's 1987 aftertax profit of $1.1 million into an $8.2 million loss.

This is an extreme case, but it illustrates a principle. In recent years financial instruments such as mortgage-backed securities have proliferated, but accounting rules have not kept pace. The result is a smorgasbord of standards. Manufacturing companies get to book their marketable equity securities at the lower of cost or market value, and some thrifts carry their long-term equity portfolios at lower of cost or market, their long-term debt portfolios at cost. Stock insurance companies carry their assets at cost, except for common stock, which is marked to market. Out of this mishmash investors can only begin to guess at the value of the financial assets of many companies.

The Financial Accounting Standards Board has set out to clear up the mess, but some folks think it may merely make matters worse. As a first step it has recommended that companies should provide investors with comprehensive, footnoted information, including market value, for all corporate financial assets and liabilities. Says Joan Amble, project manager at the FASB: "Investors need a uniform way to compare a company's financial risk and exposure." Initially the board had wanted companies to start doing so next year, but the proposal has met opposition from the financial services industry, which fears that eventually companies will wind up being forced to use market valuations for actual balance sheet totals. As a result of intense lobbying pressure, the FASB has begun to backpedal on the idea. A meeting of the board later this fall will decide whether to water down the disclosure recommendation and when to require implementation.

Chas B Slackman

Industry executives say that marking to market is time consuming, expensive and often unworkable, since certain instruments by definition, like private placement bonds, don't have public markets. Says Bernard Doyle, manager of corporate accounting services at General Electric, "The results would be subjective and lack comparability."

But that argument about subjectivity is losing force. Secondary markets are proliferating for virtually every kind of financial instrument imaginable, from bundled home mortgages to shaky Latin loans. Thus what may have been initially bought by a bank or insurance company as a long-term investment five or ten years ago can today often be sold by a single telephone call to a broker.

Providing investors with a picture of the market value of a company's financial assets might prevent sudden shocks and surprises when assets really do have to be sold or written off. But carrying out the project may prove more difficult than merely advocating it: Consider how impossible it has been for the FDIC to figure what loan portfolios are worth when it takes over troubled banks. Until many years have passed it won't be known how much money can actually be collected on the shakier loans.

Given all these problems, it is important to do everything possible to restore investor confidence, which has been badly shaken by some recent surprises—such as the utter collapse of the apparently sound First Republic banks in Texas. So the subject of marking to market will not simply go away. Sums up Thornton O'glove, publisher of the *Quality of Earnings Report*, a financial research publication, "If companies are so concerned about the impact of such information, that's all the more reason to disclose it." ■

GLOBAL COMMUNICATIONS and COMPUTER STRATEGIES for the 90's

A WHITE PAPER TO MANAGEMENT PREPARED BY CIO PUBLISHING, INC.

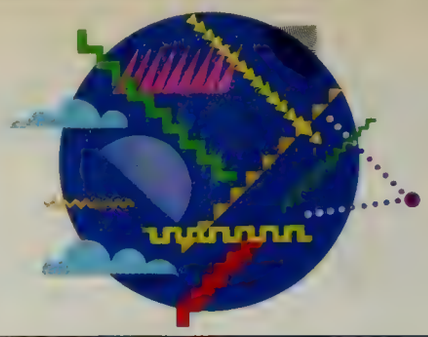
Perhaps in the 1960s when Marshall McLuhan coined the term "global village," he foresaw that in the 1980s General Motors would operate a network that links over 500,000 computing devices and telephones and connects 18,000 locations worldwide.

Or that American Airlines' SABRE reservations network, linking more than 10,000 video terminals all over the planet to six massive mainframe computers, sometimes posts larger annual revenues than the airline itself.

By any name, a confluence of computers, communications technologies and demographics is transforming the way any enterprise conducts itself and carries out its organizational mandate. And it's happening fast. If you ignore it, you will fall hopelessly to the rear in the global race for the competitive edge.

At the heart of the transformation, of course, is information. No longer a byproduct—no longer, in many cases, even a cost center—the generation and movement of information has been made profitable by those who have taken up the technological challenge posed by the myriad machines that have automated so much of our lives.

We are, unquestionably, dependent on computers and the communications devices and services that connect them. The number of computers and terminals at work in the world today stands in the neighborhood of 100 million. Call it The Proliferation, and under-



stand that it constitutes a critical mass; the overwhelming need of organizations and their workers now is for connectivity, for integration, for ease of information access.

"We call it group computing," explains Daniel Crane, vice president of marketing for Toshiba America's personal computing division. "It improves the productivity and efficiency of the group and the corporation. People need to share data and information, and the company that provides this capability will beat the competitor who does not."

Just as critical is software. The sheer volume of devices, users and connections produces a complexity that threatens to overtake integration efforts—but well-designed software and carefully developed software strategies can help users cope with The Proliferation.

"Group computing is more a philosophy than a reality for many right now," observes Toshiba's Crane, "because of the lack of applications software."

Call this the Complexity Factor.

"As systems become more complex—whether you think of that in terms of greater machine resources applied to more complicated problems or in terms of more machines interacting in more convoluted ways—software has to become more complex," says Susan Messenheimer, president of AIM Publications & Consulting, Inc., a Natick, Mass.-based consulting firm specializing in artificial intelligence.

"But there's a caveat," she adds. "The end-user population is swelling, and most of them still hover near computer illiteracy. Meanwhile, at least in proportion to the number of end users, the number of programmers is shrinking. That spells crisis, and the solution is artificial intelligence: the injection of expertise and knowledge into software."

Then there are standards—or the lack of them. Global networks and enterprise-wide systems are, if not impossible, then extremely difficult to achieve without standards. These are emerging—sometimes officially, sometimes de facto—thanks to user demands. Proprietary systems and networks survive by becoming standards themselves, and open architectures and so-called "universal" operating systems like Unix now rule over whole sectors of the computer equipment market.

"In order to be successful in the 1990s," says Fred Wang, president of Wang Laboratories, Inc., "enterprises must be able to access all useful information, no matter what form it may take—data, text, voice or image; no matter where it resides—in corporate mainframes, departmental minicomputers, workstations, personal computers, recorded telephone messages or on paper; and no matter whose equipment is involved—from Unix-based workstations to mainframes.

"In the decade ahead," he continues, "we will progress from standalone imaging systems with rudimentary applications to sophisticated networks that allow images to be productively shared and to integrated applications that allow the knowledge worker to access data processing, word processing and image files from a single integrated workstation."

FIREFIGHTING WITH FACSIMILE

When Joe Yurkobich, who heads the Pittsburgh office of PMA Insurance, got word that a burning building had just collapsed on a key client's brand new fire truck, he knew the right appraiser to call.

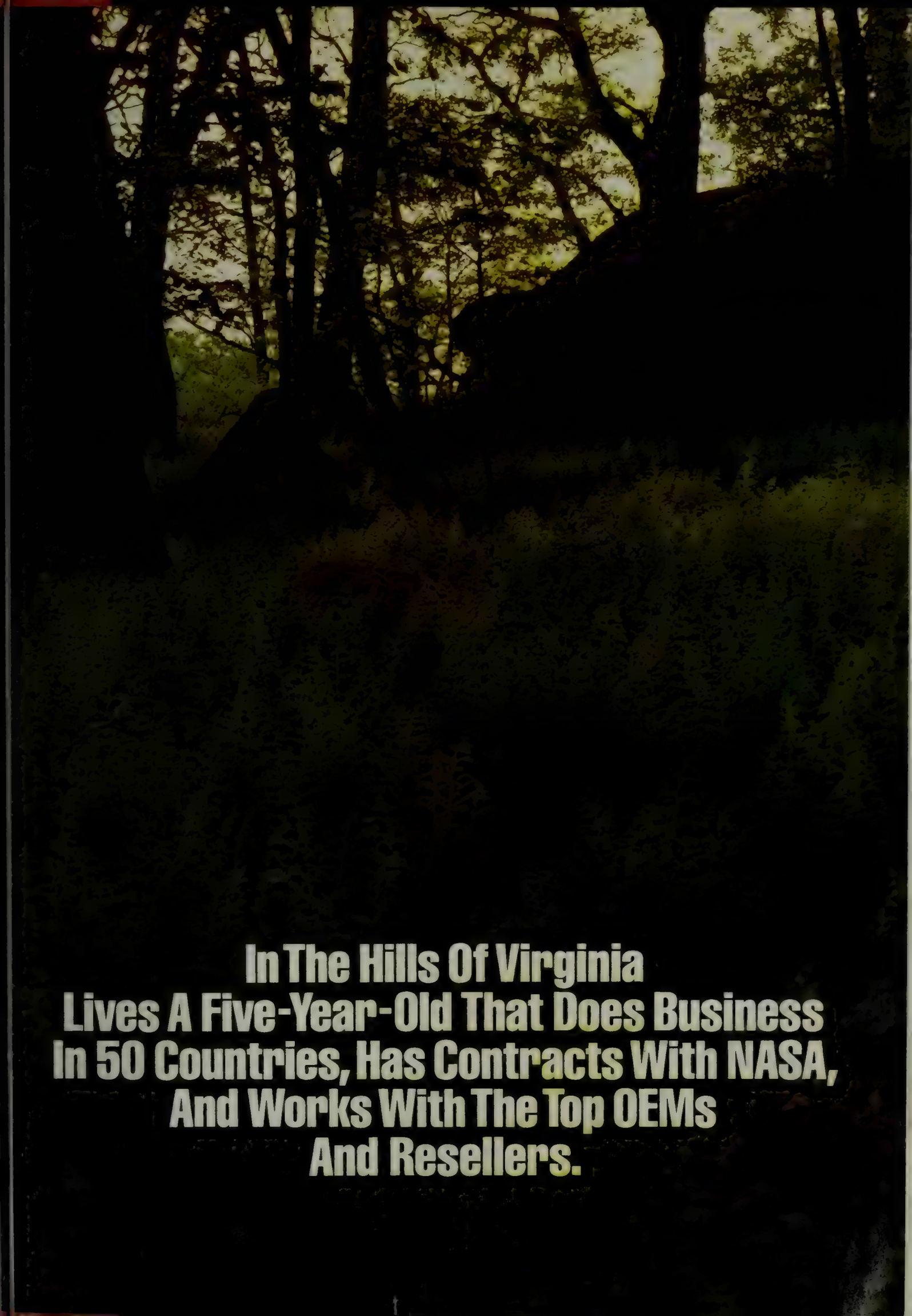
But the appraiser was 80 miles away in Johnstown; the client—a township nearby—had lost its only fire truck and needed a quick settlement, and the local appraiser put in a damage appraisal Yurkobich believed was too high.

The solution: fax the claim information to the Johnstown appraiser, who received it in seconds and was in Pittsburgh the following morning to appraise the fire truck.

PMA Insurance, a property and casualty insurer with 16 offices and more than 1,000 employees in six northeastern states, last year installed Omnifax/Telautograph facsimile machines in each of its offices after a successful pilot test at its Pittsburgh site. The company, which processes almost 200,000 claims every year, has found that thanks to its fax system it has reduced per claim turnaround time from 19 to 13 days.

The result: The Johnstown appraiser's damage estimate was $13,000 less than the first one, and the client's truck was quickly under repair.

"This was an instance where using the right appraiser and getting him the information on the day of the accident made a world of difference," says Yurkobich. "It saved us an important client—and $13,000."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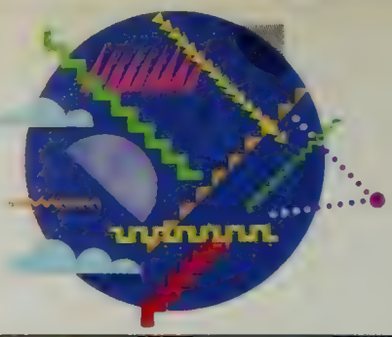


EVOLUTION IN TECHNOLOGY

Newly developed transmission capabilities, network control systems and software now offer users better quality, greater capacity and improved cost-efficiency. While these new technologies make buying decisions tougher, they also open the road to new applications. In a globally competitive world, they cannot be ignored.

Optimism in Optics

When fiber optics emerged from research laboratories about ten years ago, futurists predicted it would spawn a revolution in communications. After all, a single silica fiber is theoretically capable of carrying 2.5 trillion bits of data per second; AT&T is experimenting with fiber-optic systems that transmit data at 1.7 gigabits per second. Fiber optics' high capacity, low bit error rate and low attenuation make it ideal for long-distance phone lines.

Since the divestiture of AT&T several years ago, the fiber optics industry has enjoyed heady growth as the major long-distance carriers built optical long-distance networks. By 1985, over one million kilometers of fiber-optic cable were shipped by vendors.

Not surprisingly, fiber optics also figures largely in construction plans of the regional Bell holding companies like Ameritech, which already use it extensively for bulk transmission—trunking—between their central offices and the "feeder" trunks linking the central office with local loop transmission equipment. The regional holding companies will install fiber-optic cable in the so-called "last mile," from the customer's premises to the local loop, which remains dominated by traditional copper twisted pair cable.

Fiber-optic cable is also becoming more popular in point-to-point computer interconnections, especially in local area networks (LANs), because of its high bandwidth. So important to LANs is fiber optics that a LAN standard for fiber—FDDI (Fiber Distributed Data Interface)—is being developed.

But fiber optics' bandwidth capacity is limited by the electronic switching components used in fiber-optic transmission systems. Research is under way to replace these electronic components with "photonic," or optoelectronic, devices that switch the paths of light waves by applying crosscurrents from other light channels. Last year NEC displayed a photonic switch prototype that presages optic PBXs. And those working on the FDDI standard have proposed an optical bypass switch as an option.

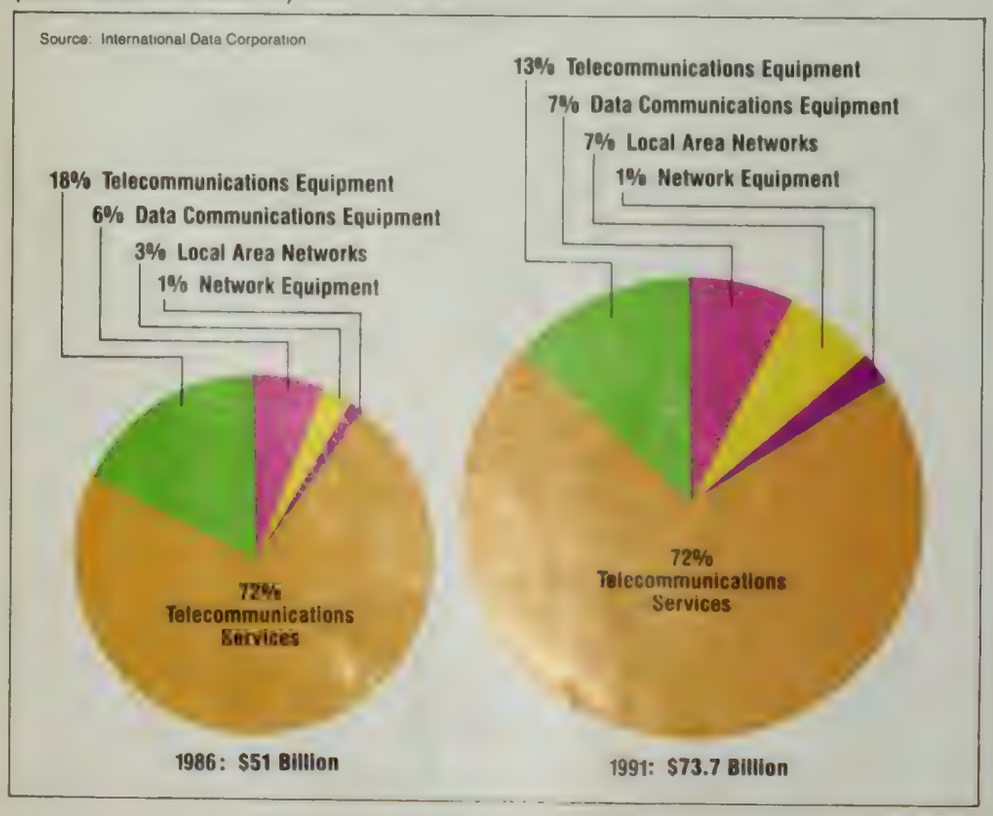
Networks Get Smarter

"The most important telecommunications development now taking place," says Tom Volk, manager of teleconference systems engineering at NEC America's radio and transmission systems group, "is the incorporation of a greater and greater amount of intelligence into communications networks."

This intelligence is a key component of an evolving digital network and will benefit users by offering them greater control of their communications resources and a wider range of choices, including hybrid systems that offer all the features of private and public networks.

Software-controlled T1 multiplexers installed at a customer's premises can reconfigure bandwidth allocation for voice, data and video use on large digital networks that have been dubbed T1 networks. Greater network intelligence provided by T1 multiplexers, like those from Unisys (Timeplex), and digital

WORLDWIDE BUSINESS COMMUNICATIONS MARKET
(U.S.-based Manufacturers)



The apparently monolithic business communications marketplace comprises a diversity of equipment and services which are, increasingly, becoming data-oriented. Both data communications equipment (modems, multiplexers, digital switches, processors) and local area network sectors will grow faster over the next several years than the business communications market as a whole, as the expansion of their pieces of the market pie between 1986 and 1991 indicates. Other notable growth sectors include modem-based network management gear and modem-based performance measurement equipment.

What you think image processing is.

- ☐ You think it can only be used for file retrieval.
- ☐ You think it's expensive.
- ☐ You think it can't work with your present data processing system or that it will slow it down.
- ☐ You think that you can't integrate with other applications or with other windows.
- ☐ You think you'll be locked into a system that won't grow with your business.
- ☐ You think there's no application software yet developed.

And what it really is.

- ☐ Wang's imaging system does, in fact, retrieve files. But, it can also access data, interchange data with the mainframe, or completely manage all your applications.
- ☐ With Wang's new VS 5000 you can now get into imaging at an extremely competitive price.
- ☐ Wang's imaging system can be totally integrated with your present data processing system and it won't affect processing speed.
- ☐ Wang's imaging system is compatible with data processing applications from major vendors. And can be used in conjunction with multiple windows at one workstation. For example, you can put an image on the screen, log onto other systems, run applications, create a package of information, and send it out via FAX.
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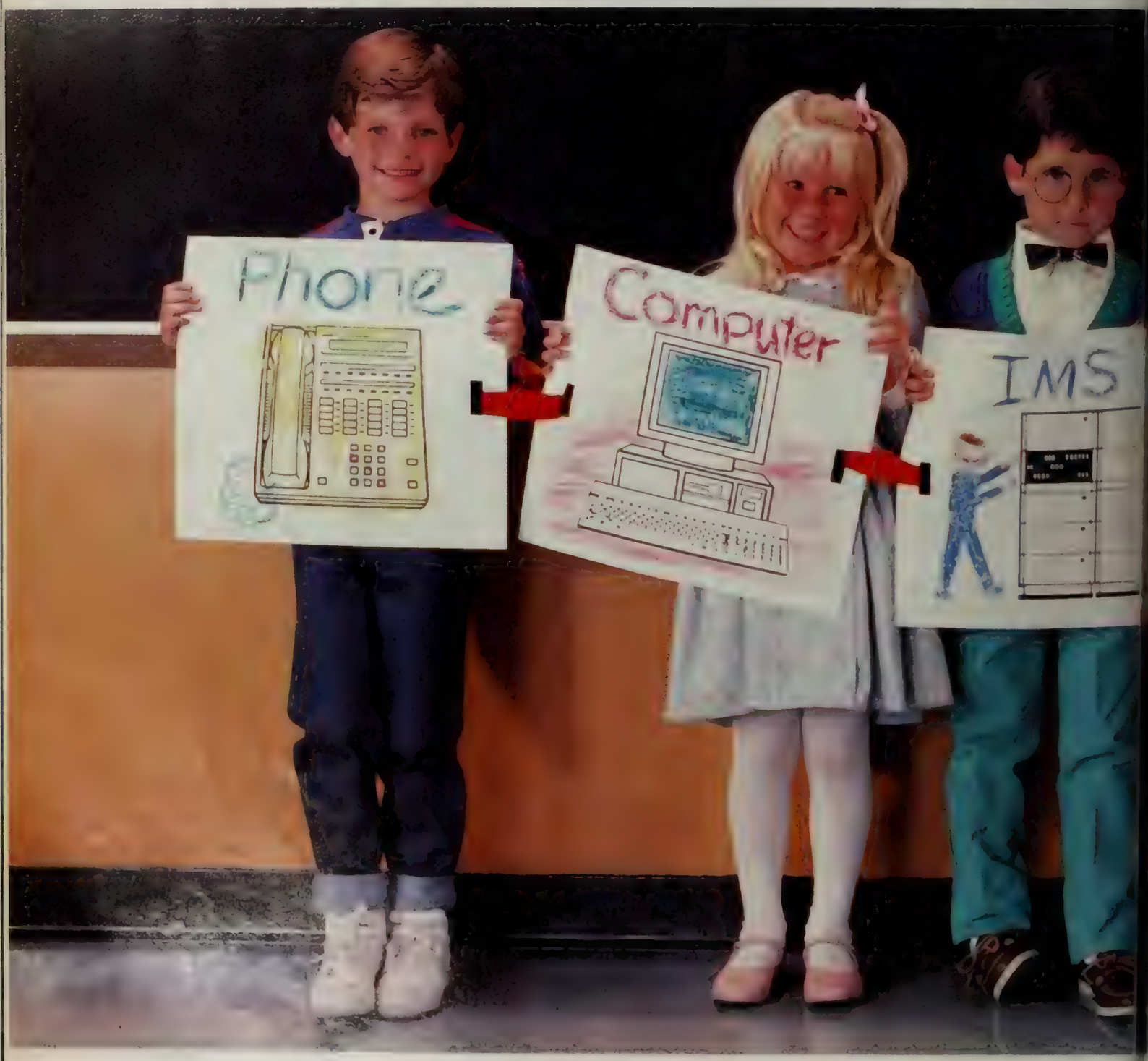

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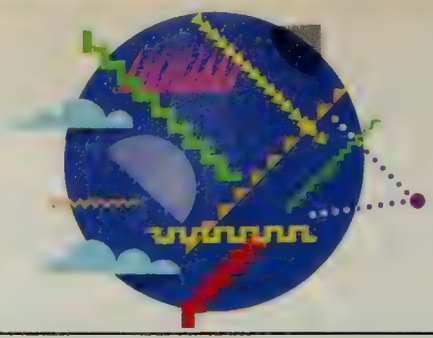


cross-connect equipment, which routes voice channels within a T1 signal, are allowing faster response and better network management.

NETWORK MANAGEMENT

Today's era of multivendor computing environments—spawned by a proliferation of such decentralized systems as personal computers, technical workstations and minicomputers as well as an army of peripherals—triggered a need for networking protocols and standards that permit users to manage an array of devices from a variety of vendors through one common network management system.

Many forces have converged to force vendors to develop network management strategies—and products—that serve to integrate systems:

- Networks have evolved from a master/slave (read: mainframe/dumb terminal) approach into peer-to-peer interconnections among highly distributed systems.
- These peer-to-peer networks have grown larger and larger—some have tens of thousands of attached devices—so managing, monitoring and maintaining them has become very complex.
- In many business sectors, such as banking, retailing and other service industries, networks of computing devices constitute a critical strategic resource that cannot be allowed to fail. Thus uninterruptible power sources from vendors such as Exide and fault-tolerant networks and systems are in demand.
- Communications costs, meanwhile, are climbing, and there is a shortage of skilled personnel to staff network command centers and handle network management.

Many vendors, including Tandy Corp., help customers develop networking strategies and offer network management products. "The strategic importance of network management," says Bernard Gudion, marketing manager for networking at Hewlett-Packard's information networks division, "is that if you do not have a very good or even superior network management offering, you're not going to be able to sell your computer systems."

WIRING THE GLOBAL VILLAGE

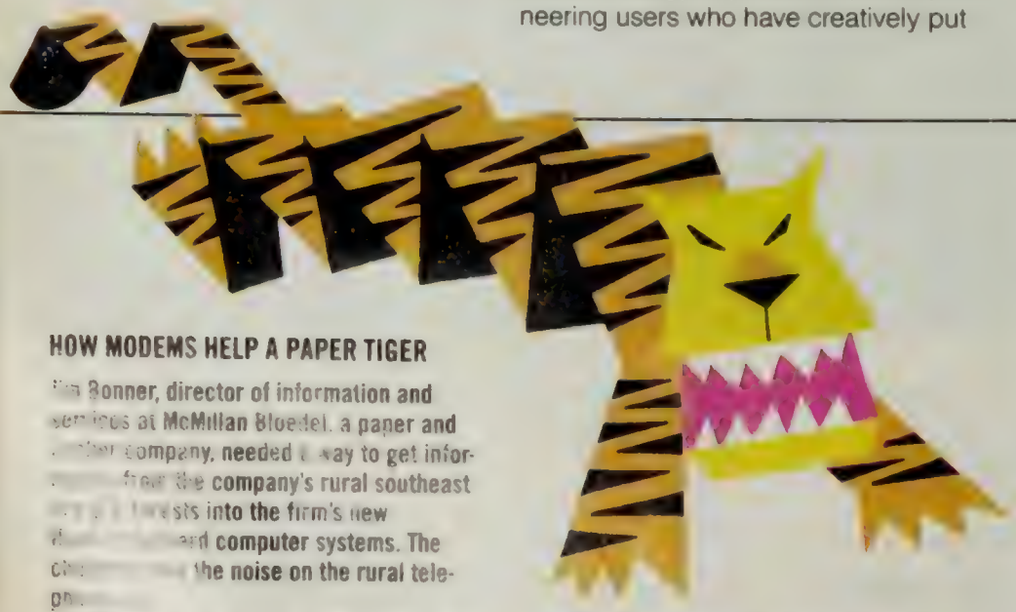
The firm line that once distinguished voice and data communications has been erased by an inexorably advancing technology in partnership with pioneering users who have creatively put that technology to work automating traditional enterprises and bringing forth new ones.

Today, communications systems that send voice, data and video signals span the earth. Information is bounced off satellites and shot through cables that cross entire oceans. Computer-based systems operate in the dead of night receiving messages from places where it's high noon. And the organization that turns a blind side to how communications and computer technologies together are transforming the world will be outperformed and outmaneuvered by its competitors—competitors that can now come from any country on earth.

Voice/Data Integration: Multiple Dimensions

No longer do telephones simply transmit and receive simple sounds—they have become conduits for data, text, photographs, video. They can even be hooked together in networks that perm simultaneous communication in two or more of these media.

Telephones, like those manufactured by Alcatel, that can store and recall



HOW MODEMS HELP A PAPER TIGER

[illegible] Bonner, director of information and [illegible] at McMillan Bloedel, a paper and [illegible] company, needed a way to get information from the company's rural southeast [illegible] forests into the firm's new [illegible] computer systems. The [illegible] the noise on the rural telephone [illegible]

[illegible] up-to-the-minute reports on avai[illegible] so error-controlled communication [illegible] is essential," says Bonner. "After we made a corporate decision to use Hewlett-Packard products, we began searching for a modem which could take advantage of our serial network link."

In addition to sending order information to locations in the U.S. and Canada, McMillan Bloedel needed modems to help its sales force keep track of production status and alert customers with electronically generated shipping notices.

So Bonner decided to check out several vendors' modems in a rigorous three-day test using actual business applications. Large files of data were transferred through two small local telephone company switches and McMillan Bloedel's PBX.

"Our testing might have been somewhat unusual," Bonner notes, "but it effectively simulated the environment in which we transfer important data." Hayes Microcomputer's V-Series Smartmodem 9600 was the only modem tested that ran without interruption or errors.

"In the real world of manufacturing paper products," says Bonner, "Smartmodem 9600 gives us the essentials to survive and grow at high speeds."

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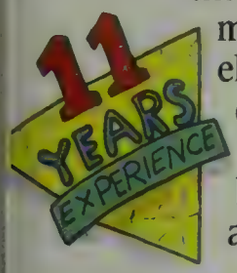

During those years, we've sold well over a million name brand computer systems. Far more than any other computer specialty store network.

Our sales in 1987 alone were nearly $2 billion.

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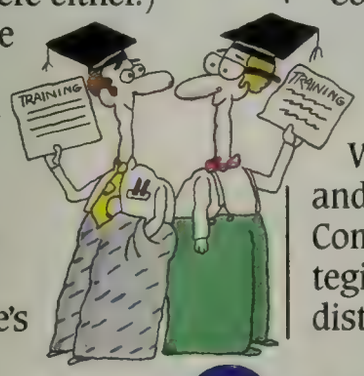

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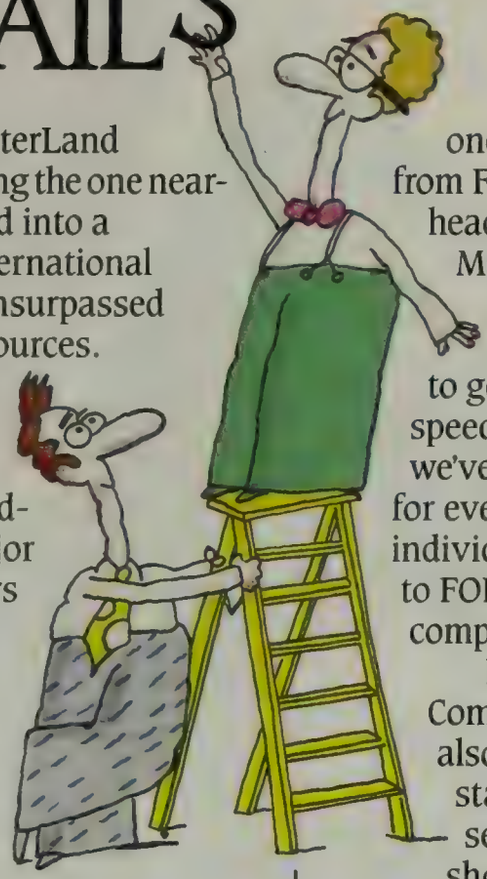
We offer a complete selection of computer products from major manufacturers throughout the world. Not just one or two. That includes computers, printers, software and peripherals. So we--and you--have real choices.



We also do our best to make it easy for you to buy computer equipment and keep it up and running.

To begin with, a ComputerLand representative will come to your place of business to talk.

But we don't just talk. We deliver. To get products and parts to you A.S.A.P., ComputerLand has four strategically placed national distribution centers. Including one just five miles from Federal Express headquarters in Memphis.

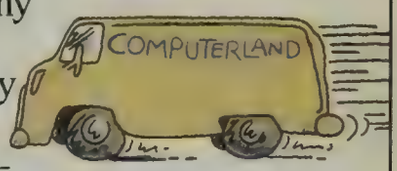
Our network provides training to get your staff up to speed quickly. Which we've done successfully for everyone from individual entrepreneurs to FORTUNE 500 companies.

Each of our ComputerLand stores also has a fully-staffed, full-time service department, should you ever have problems.

We can even arrange to service your equipment on-site.

Put simply, we're big enough to handle big business' smallest details.

And that, put simply, is why so many big businesses give us their business.



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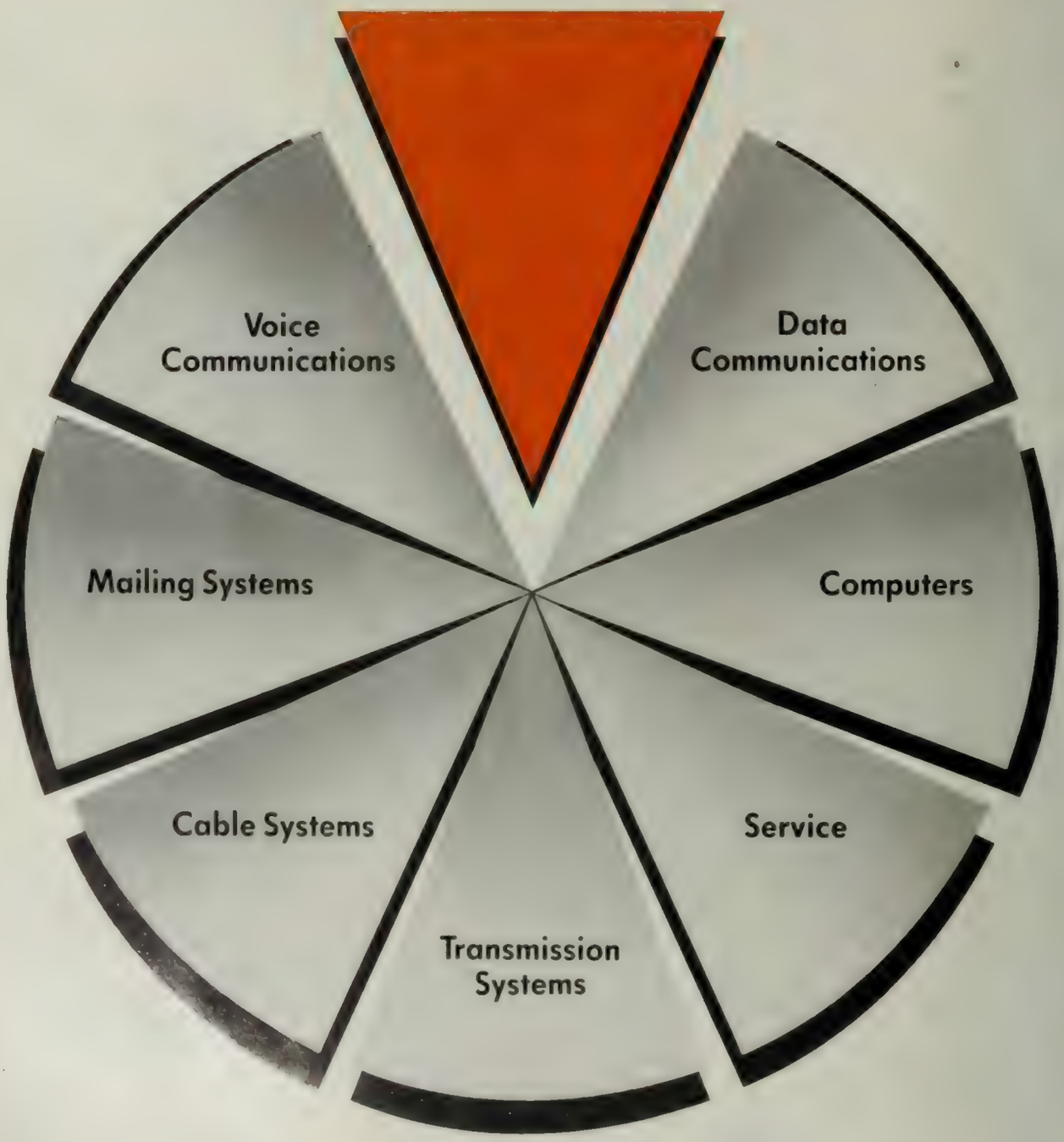

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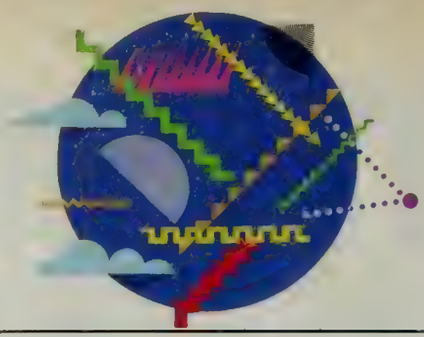

phone numbers from built-in memory circuits illustrate the most basic level of voice/data integration. There are stand-alone models that handle 10 to 200 numbers and "smart" phones with liquid crystal displays that monitor date, time, number called and length of call.

Desktop handsets are equipped for automatic call accounting, least-cost routing, voice mail, appointment calendars and voice dialing. Some boast built-in modems and computer ports so they can be integrated with office computers.

THE HYBRIDIZATION OF PBXs

Once aimed at large companies, private branch exchanges (PBXs) are being designed for smaller firms. Other kinds of equipment, like automatic call distributors (ACDs) and electronic key systems, are horning in on traditional PBX territory.

Now available are PBXs with integrated ACDs that can handle large volumes of incoming calls, and hybrid key systems that combine the features of PBXs and such key system capabilities as conference calling, call forwarding, speed/automatic redialing, off-hook signaling, toll restriction and direct-line termination shared access from the central office.

PBXs have gone digital, too. They are programmable, can be linked with computer systems and peripherals and can be integrated with local area networks—all through standard telephone lines. The result for customers is lower-priced equipment with greater capability from such vendors as Toshiba, NEC America, Alcatel and AT&T.

Alcatel's 3100 Voice/Data PABX is in use at Helen Keller International as part of a hybrid communications system that includes a local area network and tiered microcomputers. The system handles all communications requirements of the agency's telephones, personal computers, laser printers, dot matrix printers and facsimile machines.

Fujitsu GTE Business Systems, Inc.'s Starlog, a hybrid PBX, can handle up to 240 lines and can transfer data at speeds up to 19,200 bits per second. Starlog can also be interfaced with voice messaging systems and some versions include automatic call distribution.

VOICE MAIL

Thanks to the new PBX and hybrid key system capabilities, voice mail—the ability to send, forward and reply to voice messages nonsimultaneously—has become a cost-efficient tool, even for many mid-sized organizations. Voice messages are recorded by a microprocessor-based device that stores messages electronically in "mailboxes."

E.I. Du Pont de Nemours & Co. operates a 12,000-user voice mail network, called DuVox, that is based on 1 Wang Laboratories, Inc. DVX voice ma systems located at Du Pont headquarters in Wilmington, Del. Du Pont claims that it saves $2.4 million each year using DuVox instead of answering machines and services.

The company's salespeople say DuVox makes them seem more accessible and responsive to customers than their competitors' sales staffs. Du Pont

2 ACRS, 6 RMS W/VW

Finding the right vacation home can be tough. "We had a Michigan couple who had been driving around the state for three years looking for a vacation home," says Christopher Barlow, president of Minneapolis-based Vacation Properties Network (VPN).

The problem: potential second home buyers often know what they want, but not where to find it. Information about vacation properties is often incomplete, and most buyers know little of the vacation areas where properties are located.

But Barlow's VPN has changed all that—at least in Minnesota, Wisconsin, Michigan, Florida and Colorado. VPN maintains not only 6,000 property listings on its database network, but also detailed information about nearby towns and facilities, including restaurants, schools, hospitals, resorts, airports. The VPN database resides on a Wang computer in its Minneapolis "resource center" and is transmitted to VPN's three other resource centers. Personal computers at VPN's 40-plus branch offices access the Minneapolis center via 2,400-bps modems that transmit over dial-up telephone lines.

"To find out about vacation homes listed by VPN," explains Barlow, "clients visit one of our resource centers." A resource center consultant at a terminal enters client data into the system—type of property sought, desired location, preferred recreational facilities, financial data, etc. Then the system matches client with appropriate listings. Clients are given a printout of the listings that interest them so they can travel to the appropriate VPN branch office where a sales agent shows them the properties.

VPN's networked database also produces reports for home sellers describing all sales activities conducted in their behalf—including property matches, showings, and client contacts—as well as productivity reports on all sales agents.

And the couple from Michigan? After a single visit to a VPN resource center, they found and bought the vacation house they wanted in less than a week.

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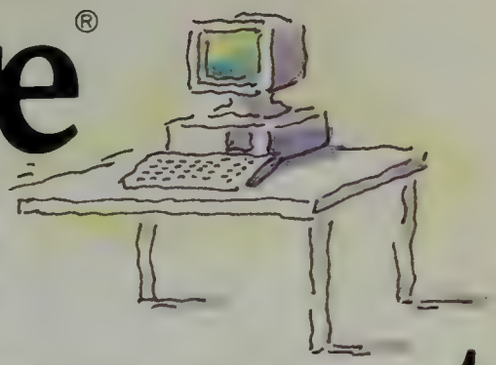

Every day, information systems grow more vulnerable to erratic outside power.

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Enter Powerware® Systems. Only from Exide Electronics. Utterly reliable power solutions that safeguard systems availability for a fraction of your systems investment.

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Why Philip Marsh took to the swamps for Fujitsu.

Philip Marsh (that's his real name) is a communications field supervisor, a guy who ties telephones and data lines together across mountains and rivers and lakes. He's the best there is in the business, a person you can count on to do the job right. And bring it in on time.

That's why when US Sprint, America's leading fiber optics telephone carrier, called on us to do a hard job, we called on him to handle it.

340-mile link

The job was to install all the electronic repeaters and switching equipment in a 340-mile link of US Sprint's new nationwide optical fiber transmission system. The route ran from Houston to New Orleans, right through the bayous and swamps of Louisiana.

US Sprint chose us not only because they knew that our systems and equipment are the best, but because we promised to do the job fast. We could make that promise because we had Philip Marsh.

Came before US Sprint

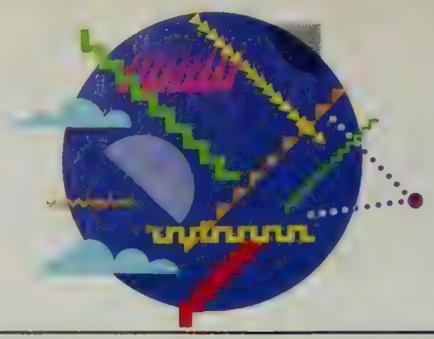
Philip came to us shortly before US Sprint did, and for the same reason: Because he knew who we were. He knew that we were Japan's number one computer maker, and one of the world's leading telecommunications makers, with a global reputation for our fierce commitment to quality. We were his kind of people.

He was our kind of person, too—as he proved in the swamps, where he coordinated the entire installation of our state-of-the-art 405Mb/s optical fiber transmission system, including 16 separate repeater stations and six switching stations. He beat the mud, the mosquitoes, the rain and all the deadlines. He did a remarkable job. And he's still doing remarkable jobs. He's the kind that's making us who we are.

Lightwave equipment for Fujitsu's U405Mb/s fiber optics system, whose installation Philip Marsh supervised for US Sprint. Fujitsu offers fiber optics systems ranging from 45Mb/s to 810Mb/s, including a digital loop carrier. For information, call the Transmission Division, Fujitsu America, Inc. at 1-800-777-FAST.

FUJITSU

The global computer & communications company.



salespeople even hand out business cards that tell customers how to use DuVox. These days, nearly 10% of the 625,000 calls DuVox handles every month are placed by customers communicating with Du Pont's salespeople.

FACSIMILE

Like the tortoise who surprises the hare, facsimile machines have caught up with higher tech alternatives and have achieved status over the past year or two as the preferred method of sending documents inter-organizationally.

Facsimile equipment from such vendors as Omnifax/Telautograph, NEC America, Toshiba and Minolta incorporates a range of new features while price tags shrink. NEC America's PF-1 fax is briefcase-sized and transmits a page in less than a minute. NEC's NEFax 20, as well as AT&T's 35100 and Ricoh's 210 fax products, send a page in less than 20 seconds and boast automatic dialing, speed dialing and password capability. Toshiba, NEC, Canon and Ricoh also offer higher-grade facsimile machines, called Group IV devices, that transmit a page in less than 10 seconds and also provide convenience copying, computer interfaces and error-free transmissions.

PC-fax links (or fax boards, or virtual fax)—an adapter card plus software that allows a personal computer to function as a facsimile device—are sold by more than 20 vendors, including AT&T. Similar minicomputer-fax links are also available, and a market for hybrid fax systems—advanced facsimile plus optical character recognition, image scanning and laser printing capabilities —is emerging.

Communicating Computers

According to International Data Corporation, the largest information industry market research organization and sister company to CIO Publishing, there will be over 80 million personal computers from such suppliers as Tandy, Wang, IBM and Apple Computer installed worldwide by 1992—as well as tens of millions of other kinds of computers, terminals and peripherals such as printers and copiers.

Moreover, the expanding memory and processing power of these computers means that users can put the machines to work on new kinds of applications and functions. Tandy Corp.'s new personal computers, the 4000LX and the 5000MC (based on Intel 80386 microprocessor chips), boast a clock speed of 20MHz, a standard memory of two megabytes expandable to 16 megabytes, and hard disk capability up to 344 megabytes. Prices for these systems range from $3,999 to $8,048.

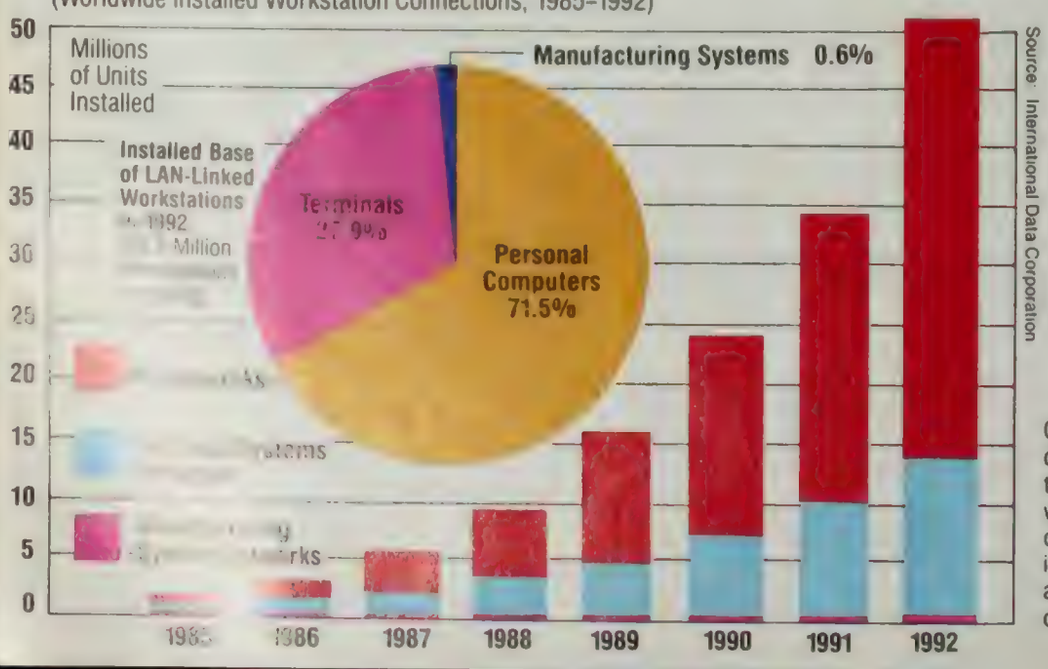
The pressure from the users of these systems for ways to communicate among all these machines is irresistible. It is changing the way vendors think and the way all automation products and services are sold.

Printers, for instance, must be more rugged and independent. "The growth in communications," says printer vendor Genicom Corp.'s Director of Marketing Programs, Karen Fuller, "affects the duty cycle—the need for ruggedness—of the printer. In many cases, printers are in unattended areas or they operate all night receiving messages from all over the world. Printers in these situations need to be high speed and high duty."

And copiers are no longer standing alone. "Advances for copiers include computer and video interfaces as well as integration with desktop publishing systems," reports Dick Harrell, director of marketing for reprographics products at Canon USA's graphics systems division.

Retail computer outlets like Computerland and Tandy do not rely exclusively anymore on sales to individuals. They sell now to corporate buyers and offer ways to help customers integrate systems.

THE LOCAL AREA NETWORK LINK
(Worldwide Installed Workstation Connections, 1985–1992)



One of the preferred methods of linking computing devices with each other is local area networks, and the device which will most commonly be brought within the communications fold is the personal computer. Today, about 10% of the worldwide installed base of PCs has been hooked into a local area network; by 1992, over 40% of all PCs in operation will be part of a LAN.

Enlarge it. Reduce it. Or reate any size in between. Canon's ew PC-7 personal zoom copier nakes it easy to get the copy you eed. In seconds.

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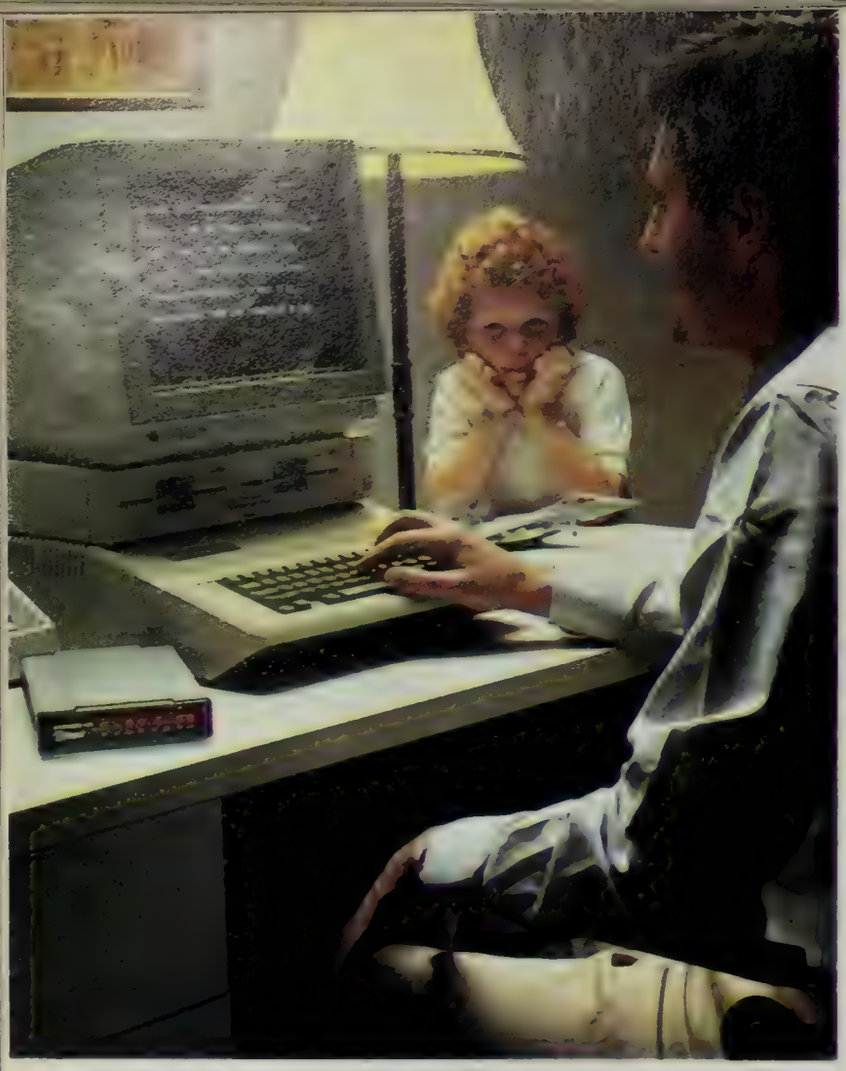
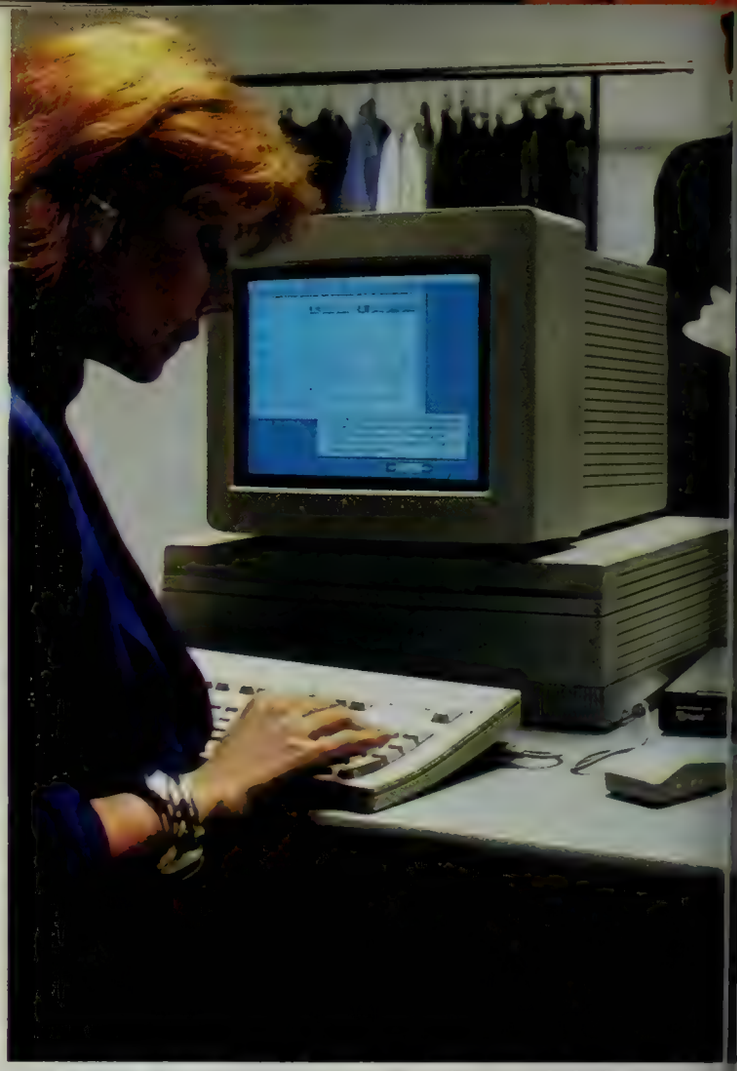


THE HAYES SMARTMODEM 1200.™ Perfect for the home office or when you have to bring the office home.



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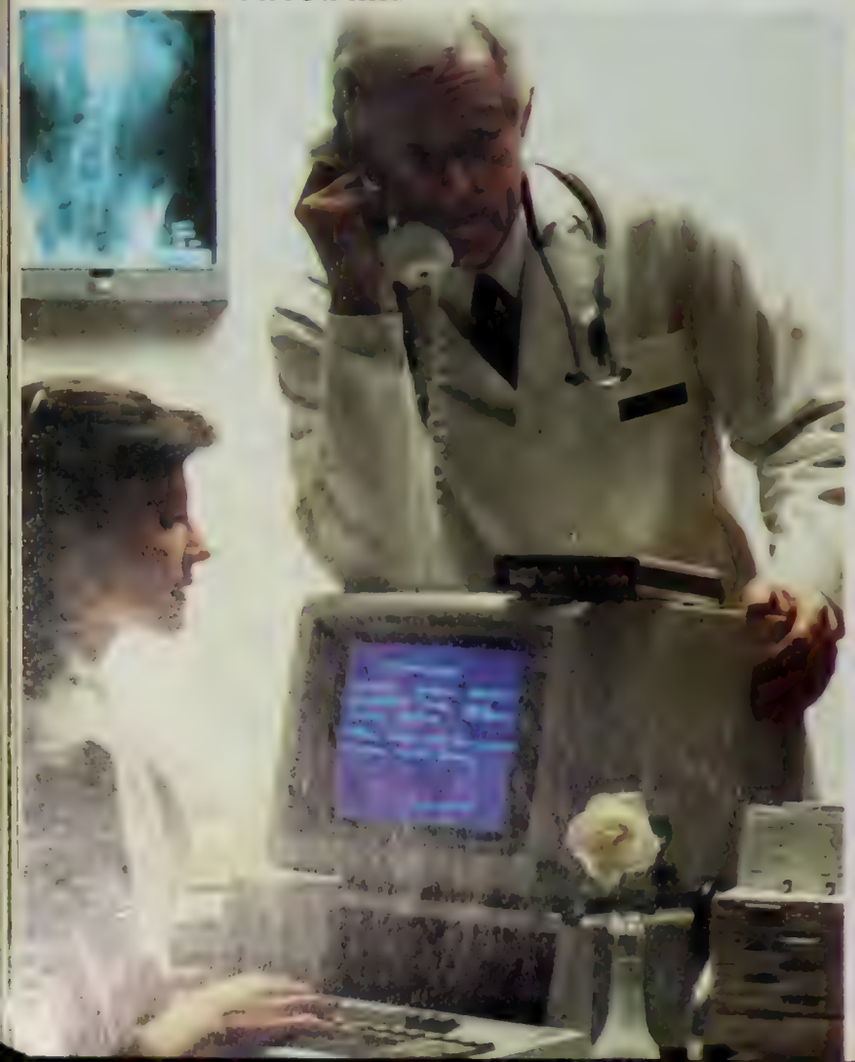

At Hayes we make a number of different modems. Stand-alone and internal. No one is right for everyone, but one is right for you.

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And we have the perfect companion software, because we design it ourselves. Our Smartcom family of software offers a full range of capabilities that will satisfy the communication needs of both the power user and the novice.

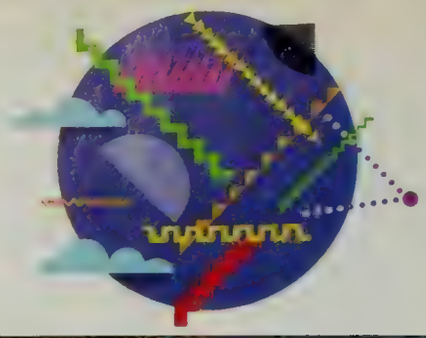
NO ONE MODEM IS RIGHT FOR EVERYBODY. UNLESS IT'S A HAYES.

We've also created peripheral and enhancement products designed to expand your system and improve its overall performance.

The sum of these products is a company that provides users total solutions to all their communication problems. Using ordinary dial-up phone lines.

So while it's not true that one modem is right for everybody, it may very well be true that one modem maker is.

For your nearest Hayes dealer, call **800-635-1225**. Hayes Microcomputer Products, Inc., P.O. Box 105203, Atlanta, GA 30348. **Hayes.**



Phillips Petroleum began looking for a national provider of PC products and services several years ago and chose Computerland in 1986. The company says its relationship with Computerland has saved hundreds of thousands of dollars and, in turn, encouraged the firm to develop new uses for personal computer hardware and software. Today Phillips uses personal computers for many applications—including word processing, accounting, database management, spreadsheet applications and desktop publishing—and a large number of Phillips' PCs are linked to mainframe computers or tied together in local area networks, wide area networks, and multi-user systems.

And so strategically important have computer systems become to those in such businesses as banking, retailing and transportation, that a market has emerged for firms like Exide, which sells uninterruptible power supplies.

MODEMS PICK UP SPEED

The virtues of high-speed modems (modulator/demodulators that convert data for transmission over standard telephone lines) are obvious. The faster data is transmitted, the less a user has to spend on telephone line charges and time.

Two years ago, 2,400 bits per second (bps) was regarded as the top of the modem speed range, and these devices sold for around $1,000. Eighteen months ago, the leading edge in modems was 9,600 bps at a cost of $5,000 to $6,000.

These days, even 9,600-bps modems, whose price tags have dropped to less than $2,000, have been eclipsed by products boasting speeds of 14,400 bps and even 19,200 bps. Hayes Microcomputer's V-Series Smart modem 9600, for instance, offers a maximum input speed of 19,200 bps and includes such features as error control, flow control and adaptive data compression. The Smartmodem 9600, priced at $1,299, is compatible with earlier Hayes products as well as several modulation standards.

Fujitsu America recently introduced its M1928LFT modem, which automatically falls back to a lower speed if signal-to-noise ratios or degraded signal quality cause error rates to increase. If error rates still occur at lower speeds the modem will automatically switch to to an alternate dial-up or leased line while continuing to monitor the quality of the primary line. When making the dial connection, the M1928LFT also first determines the operating speed of the receiving modem and adjusts itself accordingly.

ELECTRONIC MAIL

The non-simultaneous exchange of computer-based messages takes several forms. Integrated office systems, such as Wang Laboratories' Wang Office, Hewlett-Packard's PPC and Unisys' Sperrylink, offer users a combination of capabilities led by electronic mail and word processing. Local area networks are also common conduits of intra-office electronic mail.

Another form of electronic mail occurs between organizations through public service bureaus, like MCI Mail or AT&T Mail, packet switching systems like those supplied by Alcatel, or value added networks (VANs).

LOCAL AREA NETWORKS

The distinct automation fiefdoms—MIS departmental systems, stand-alone personal computers, etc.—that have ruled the computing world are beginning to give way to enterprisewide networks. According to a study conducted by market researcher International Data Corporation, just 40% of the personal

"Recommended wholeheartedly."

In a recent user poll reported in *What to Buy for Business*, 100% of the owners of Omnifax facsimile would ***wholeheartedly recommend Omnifax*** to others. That kind of testimonial can only be earned by providing reliable products and responsive service.

But that's not surprising when you consider that Omnifax is sold and serviced by Telautograph Corporation, the only facsimile company with 100 years of service experience. For more information and a demonstration, call toll free 1-800-[illegible]-8330.

OMNIFAX 100 Telautograph 1888–1988

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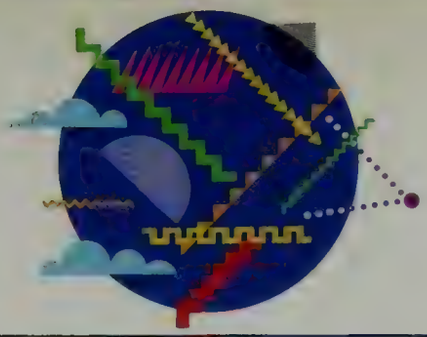


nputers of Fortune 100 company pondents were connected to other nputers in 1985. A year later that ıre climbed to better than 60%.

"The need for personal computer ers to communicate will become very ortant over the next five years as the ncept of group computing catches " says Toshiba's Crane. "And local a networks will play an integral role hat concept."

LAN vendors are providing connec- ty gateways and bridges to provide links users need. Ethernet and To- Ring standards dominate the LAN rketplace, and the proprietary, sed architectures of years past are ing.

The LAN world is populated by ee kinds of systems: those operating manufacturing environments; minal/system LANs like Wang's ngnet; and PC LANs, such as ndy's TandyLink, which is designed for all work groups of 12 people and is destly priced at $120 for the board d $149 for each node in the workgroup. PC LANs will continue to be popular among users who need to connect just two or three PCs in order to share common software and peripherals but don't need a fuller-function, fault-tolerant, multi-tasking system.

Larger users' need for LAN servers, the computers that manage the network, has heightened the LAN profiles of traditional minicomputer vendors like Wang, Prime, Hewlett-Packard and Digital Equipment Corp., whose machines function with agility as servers and still offer the processing power necessary to act as gateway or bridge. Ultimately, the boundaries between dedicated LAN servers and the larger computer systems will recede as LANs assume a central position in the enterprisewide network.

Teleconferencing

Often described as "electronic communications between groups," teleconferencing actually encompasses a diverse market containing many different applications and technologies—technologies such as fiber optics, video compression and T1 multiplexing, which have benefitted from recent advances.

Hundreds of vendors offering products that do audio, video and graphics conferencing vie for customers from business and industry, educational institutions, government agencies and associations. Teleconferencing is used most commonly to link remotely located groups for meetings or training sessions—including planning sessions, contract negotiations, college courses, court hearings and certification programs.

NEC America, for instance, has for the last couple of years supplied codecs (coder/decoders that allow video signals to be digitally processed and transmitted at low bit rates) for a tele-

SEEING STARS AT PEPPERIDGE FARM

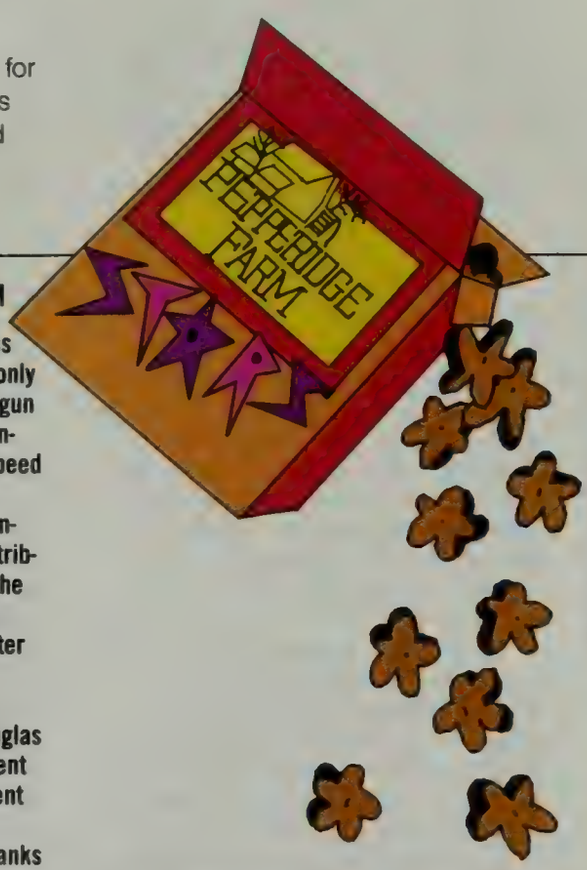
Although delivery aspects of its business have been computerized for a decade, only recently has Pepperidge Farms, Inc. begun bringing automation to its 2,400 independent distributors across the nation to speed up the ordering process.

Previously, ordering had been accomplished manually. Each independent distributor mailed orders and invoices to the the company, and the data was entered via terminals into mainframe-based computer systems.

"Let's say a distributor is ordering something for next week," explains Douglas Parrish, Pepperidge Farms' vice president of MIS. "By the time we got the order sent here, several days elapsed."

But all that is starting to change, thanks to STARS—the Sales Trans Action Routing System—which consists of millions of dollars worth of handheld computers, printers and communications interface units from Fujitsu America.

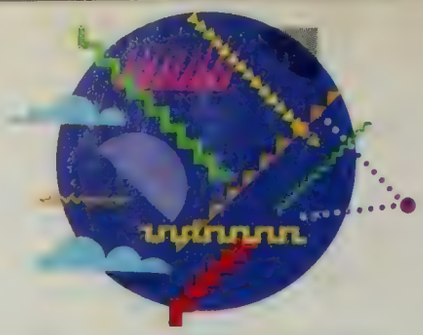
When the STARS rollout is completed in 1989, each truck delivering Pepperidge Farms baked goods will be equipped with a computer, printer and interface unit. Drivers can enter orders, create invoices and generate paper copies using the handheld computer and the on-board 80-column printer. They can also get a purchasing history on each customer and track when the last delivery was made. At day's end, data in the handheld computers is sent through a public packet-switched network to Pepperidge Farms' mainframes.



"We recognized the need to push information strategies out into the forefront of the company to help us do a better job," says Parrish. "For months we tested products from several manufacturers to make sure their units could endure climate ranges—from the humidity of Florida to the subfreezing temperatures of Chicago."

Fujitsu's handheld computer contains 296K bytes of memory and is powered by Nicad batteries located in the cradle of the communications interface unit mounted in each delivery truck. This interface unit can upload sales and settlement information to Pepperidge Farms mainframes via modems which transmit at speeds of up to 9,600 bits per second.

"In our business," says Parrish, "we are dealing with perishable items. By ordering early, we will be able to deliver faster and more accurately."



conferencing project with AT&T and ABC that provides an ABC broadcast link between New York City and Washington, D.C. over a fiber-optic line.

ISDN: THE FUTURE IS HERE

Although it's a concept still shrouded in confusion, the Integrated Services Digital Network (ISDN) really is starting to happen.

What is it? ISDN is an internationally endorsed digital standard that has evolved from the telephone Integrated Digital Network (IDN). It will provide end-to-end digital connectivity to carry every form of digital communications service, including data exchange, electronic mail, facsimile, telex, telegraph, telephony, videoconferencing, broadcast video, videophone and high-definition television.

ISDN standards are being established in such countries as Japan, Canada, France, Italy, the U.K. and West Germany. In the U.S., which lacks centralized governmental control of its communications industry, ISDN standards are being debated somewhat more fractiously. But a growing number of vendors—among them Hayes Microcomputer, AT&T and a number of the Bell regional holding companies—have announced intentions to provide ISDN products or services.

A number of commercial ISDN services from regional holding companies are just getting under way for such firms as Hayes Microcomputer, AT&T Network Systems Group, Prime Computer, Tenneco, Shell Oil, Trust Co. of Georgia and the Commonwealth of Virginia.

Certainly, ISDN will affect several existing markets—including the one for central office switching equipment, whose vendors include Alcatel, NEC and AT&T, which will see a major boost from regional holding companies' impending need to upgrade their central office equipment. Although ISDN will eventually replace private line networks with less costly and more effective ISDN-switched services, ISDN will likely co-exist with local area networks, and actually boost the number of inter-LAN connectivity options.

It will take a number of years—right to the millenium, probably—but ISDN promises what remains so difficult to imagine in 1988: truly seamless communications of all manner of information between any communicating device under the sun.

GLOBAL COMMUNICATIONS AND COMPUTER STRATEGIES FOR THE '90S was prepared by CIO Publishing, Inc., Framingham, Mass., which is solely responsible for its content, under the direction of Joseph L. Levy.
Written by: Carol Weiszmann.
Graphics by: Gael Burns.

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• November 28—DESKTOP COMPUTING AND NETWORKS FOR TOMORROW. Ads close October 3.

A SPECIAL TOUCH

It all started for Barbara Mencher, information and personal computer center manager at Grumman Corp.'s data systems division, when the marketing department wanted what Mencher refers to as "an industry information system."

"They wanted to do competitive industry analysis," she says. But they were quite vague on the matter of system specifications, so Mencher was on her own in building a prototype. She picked a relational database management system and graph-producing software that operated on mainframes but was accessible from a PC-based system. Since Grumman's management accounting applications are processed by System W software from Comshare, Inc. on a VM-based IBM mainframe, Mencher customized System W for the marketing department's PC-oriented analysis requirements.

The prototype attracted the attention of data systems division president Robert Myers, who had long been in search of a system for his own use that would improve his ability to track the division's financial status. Myers wanted to liberate himself from paper-based operations tracking.

But there were things about Mencher's prototype that Myers didn't like. The marketing department's system was actually too complex for his needs, and the System W software was too detailed.

"So," Mencher recalls, "we said 'Fine, we'll do something else for you.'" Mencher went to Rose Panarelli, an information center consultant who also has a business degree, for help developing a genuinely executive-friendly system.

"Something else" turned out to be an NEC America multisynchronous monitor which responds to the touch of a human finger rather than a mouse. Mencher put the NEC monitor on Myers' desk and located the personal computer processor and keyboard in a vestibule outside his office. Mencher also used cajoling and persuasion to help her boss get over his aversion to keyboards.

"Now," says Mencher, "he feels comfortable with working in an automated environment. Now he wants a little more detail; he wants more functions added.

"I think it's a real eye-opener to the executive," she adds, "to get information in a timely manner. It also means that managers can't wait until the night before to put their budget information together. They really have to put their houses in order."

Myers, meanwhile, now owns a T-shirt proclaiming "Real executives don't type."

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Get the power and performance of Intel's 80386 ...at 20 MHz.

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The Tandy 4000 LX is highly expandable. Three front-panel device slots and eight expansion slots give power users the flexibility needed in configuring the optimum system. VGA graphics for desktop publishing, an Intel 80387 math coprocessor for math-intensive applications and SCSI technology for high-performance disk storage are but a few of the many expansion options available.

And for entry-level 386™ power, we offer the original Tandy 4000. Using an 80386 processor that operates at 16 MHz, the 1MB Tandy 4000 is the perfect low-cost choice for the heavy power user.

The new generation Tandy 4000 LX. From the best-selling family of PC compatibles made in America.

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Florida Progress Corp., Florida's second-largest electric utility, now owns a record studio and a door manufacturer.

Lights, action, prudence

By Kerry Hannon

EX-ENGINEER Andrew Hines Jr. remembers oh so clearly the winter of 1974, when there wasn't a flicker of light ahead for his St. Petersburg-based Florida Power Co. Totally dependent on skyrocketing imported oil to fuel his steam generators, the once prosperous utility was slammed by escalating costs and lost its AA bond rating. In no time the stock dropped from above 50, early in 1973, to an alltime low of 5⅜.

Obviously, Andy Hines and Florida Power survived. By 1975 Hines had started converting two plants to coal, slashed costs by 35% and nearly doubled earnings. Today Hines, at 65, is still at the helm of the 89-year-old firm and is still successfully elbowing his way around controversy and competition in the utility industry. These days the challenges are how to diversify and still keep his balance. Hines is doing just that.

Florida Power, now a subsidiary of Florida Progress Corp., is one of the country's fastest-growing utilities, supplying electricity to the thinly populated western half of the state, or nearly 4 million Floridians.

Vulnerable to imported oil no more, Florida Power's customer base grew 4.4% last year, double the national average, but understandable in a state that by the year 2000 is expected to rank third nationally in population. Results: Florida Progress had record earnings of $205.9 million in 1987 on record sales of $1.9 billion.

Florida regulators, predictably, looked at those healthy numbers and promptly lowered the utility's return on equity for this year from 15.5% to 13.6%. Utility earnings will therefore be flat. No wonder some utilities have been eager, sometimes too eager, to jump into nonregulated businesses.

But, as is his custom, Andy Hines has not gotten crazy. Yes, Hines was among the first, back in 1982, to lead his utility into new waters. But he has approached uncharted territory with commendable caution. "I figure if you eat with smaller bites, the indigestion can't be fatal," says Hines. So he refuses to overspend on a new business and has actually started many of his own ventures.

One startup, at Florida Power's Crystal River site alongside the Gulf of Mexico 80 miles north of Tampa, is the world's first Aardalite plant. Six million tons of coal are burned there each year to generate power. The fly-ash waste left from this combustion is made into Aardalite, a solid pellet used in making concrete block, and now brings in around $3.5 million a year in revenue. It also eliminates the cost each year to truck 220,000 tons of ash to local landfills.

Andy Hines' "smaller bites" now add up to $485 million in sales and represent a broad range of businesses, from a 3,000-acre citrus grove near Palm Beach to Crown Industries (the country's second-largest maker of wooden doors) to Mid-Continent Life Insurance to an 11,000-square foot studio run by former Allman Brothers drummer Butch Trucks. This year nonutility operations will contribute 25% of revenues and around 12.4% of net profit—an estimated $25.[illegible] million (50 cents a share) in 1988.

Florida Progress' long-term debt has been reduced from 54% of total capital in 1982 to 43%. Cash flow has doubled since 1980, to $375.2 million. The stock, with a yield of 7.2%, recently traded on the Big Board at around 35, or 9.5 times estimated earnings, in an industry where P/Es average 9.

The future? More of the same. "We're still digesting," says Hines. "We want to diversify patiently and prudently." My Hines, more power to you. ■

Bill Wax

Florida Progress Corp. Chairman Andrew Hines Jr.
"I figure if you eat with smaller bites, the indigestion can't be fatal."

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Honda engineers have a way with words. They could have easily called it an environment that balances the perception of speed with comfort and control. That would describe the new Prelude Si. And you would expect that from engineers. But Honda always does the unexpected.

Many cars today don't exactly inspire your confidence. Especially when you are driving at highway speeds. Often they restrict your visibility. Other times they make you feel like you are riding in a bubble.

The perfect answer to the problem addresses both sides. That thinking became the basis of design for the n Prelude Si. The high speed cabin.

They began by sloping the hoodl even lower. This improves your vie and raises your confidence level. It a lowers aerodynamic resistance.

Window area was increased by 2 to provide a more sweeping view. The glass fits more flush to the bo Again for better aerodynamics.

The engineers developed a dou overhead cam engine with sixteen valves and Honda's Programmed F Injection. Horsepower is up 20% a it's stronger through all driving rang

Next, they turned their attentio

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gh speed cabin.

suspension. A double wishbone em was designed for all four wheels. et the demand for stable handling e Prelude. For obvious reasons, brakes are used on the front and wheels. Power assisted, of course. hey refined the whole interior. driver's seat adjusts to about any tion and then remembers it. The ring column adjusts, too, and has cruise controls located on the ring hub. All the foot pedals are sitioned for increased comfort. here is standard air conditioning, wer-operated Moonroof and a high er AM/FM stereo system with a cassette player. The console accepts a CD player. Also included are power windows and power outside mirrors. And integrated fog lights.

You have a choice of transmissions. The standard smooth 5-speed manual shift or a new electronically controlled 4-speed automatic with sport shift is available.

The new Prelude Si will definitely show you that Honda engineers know what they are talking about.

HONDA

The new Prelude Si

Marketing

Edited by Jeffrey A. Trachtenberg

Three years ago it seemed AGB Research and its people meter would stand the $15 billion American television ratings business on its ear. Instead AGB fell on its face.

Diary of a failure

"WE HAD A better mousetrap," sighs Sir Bernard Audley, chairman of London-based AGB Research. "But we got our vital parts caught in it."

At the beginning of 1985 it looked like AGB Research, the third-largest market research company in the world, was ready to knock A.C. Nielsen aside as the premier television ratings service in this country. It had developed the "people meter," a more accurate way of measuring who was watching TV. AGB, which today does an estimated $227 million in sales, and operates companies in 21 countries, certainly had plenty of financial muscle and operating expertise.

But by the middle of this year AGB had signed up only one network, CBS, and about nine agencies for its people meter service. Having racked up $80 million in losses here, in August it finally conceded the TV ratings field to Nielsen, barring any last-minute revival.

AGB gained instant fame in Boston in February 1985, when it began testing people meters in 400 homes. The meters were then an important embellishment on the traditional way of measuring TV audiences. Instead of just a black box that recorded when a set was on and what channel it was tuned to, people meters included a handheld box with a button for each member of the family, so that a people meter subscriber could tell who was watching a given program. Nielsen, at the time, augmented its passive TV channel meter only with diaries filled out by each viewing family. And though that was the traditional and most widely used way of measuring TV audiences, Madison Avenue and the networks realized Nielsen num-

Ian Bradshaw

AGB Research Chairman Sir Bernard Audley
Briefly a technological leader, now history.

OPERATION MAIL/MANIFESTING/
CASS:CODING ACCURACY
SUPPORT SYSTEM/CRIS:
CARRIER ROUTE INFORMATION
SYSTEM/AIS:ADDRESS
INFORMATION SYSTEM/NCOA:
NATIONAL CHANGE OF ADDRESS/
OCR READABILITY/BCS:BAR
CODE SORTER/ZIP + 4/
PRE-BARCODING/OPERATION MAIL/
CASS:CODING ACCURACY
SUPPORT SYSTEM/ZIP + 4
DISKETTE SERVICE/
MANIFESTING/PRE-BARCODING/
ZIP + 4/AIS:ADDRESS
INFORMATION SYSTEM/NCOA:
NATIONAL CHANGE OF ADDRESS/
OCR READABILITY/BCS:BAR
CODE SORTER/ZIP + 4 NATIONAL
FILE DIRECTORY/OPERATION
MAIL/PRE-BARCODING/
AIS:ADDRESS INFORMATION
SYSTEM/CRIS:CARRIER
ROUTE INFORMATION SYSTEM/
ZIP + 4 DISKETTE SERVICE/
NCOA:NATIONAL CHANGE OF
ADDRESS/OCR READABILITY/
BCS:BAR CODE SORTER/
ZIP + 4 NATIONAL FILE
DIRECTORY/OPERATION MAIL/
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Arbitron Ratings President Anthony Aurichio
"We gave them a lot of information about the marketplace."

bers and its diary method left much to be desired in accuracy and reliability. "American media departments were spending billions of their clients' dollars on a diary system which was indefensible," says Sir Bernard. "We had a better way."

Certainly the venture seemed well worth the try. Before AGB appeared on the scene, Nielsen's pretax margins were over 50%. AGB's plan called for it to gain 40% of the market by 1990 and get a piece of this highly profitable business.

What went wrong? Everything.

AGB grossly underestimated how difficult it would be to wire the U.S. Although the company measures TV ratings in 14 other countries, none has the size or variety of programming found here. "Syndication is unknown in Europe, and we don't have very much cable," says Peter Tyrer, AGB's finance director. "Where there is cable, like in Holland, it isn't as competitive. There are fewer shows to keep track of, fewer potential programs to line up. Here you have to be able to track a local affiliate when it drops a network show in favor of a ball game."

Hiring a field staff and then servicing the necessary 3,000 households was also daunting. Costs increased far more rapidly than AGB anticipated, especially in the area of software. It quickly discovered that it could not provide ratings data precise enough for the wide variety of clients it had to serve. Ad agencies, syndicators, cable companies and advertisers wanted their own twist on the numbers. In contrast, AGB supplies standardized data in Europe; those needing additional information know they have to pay for customized service. Altogether, AGB estimates its costs were $17 million higher than expected. One competitor estimates that AGB was recently losing $1.5 million a month.

Arrogance, too, was apparently a factor in AGB's undoing. In the early 1980s AGB approached Arbitron Ratings Co., this country's largest ratings service for local markets, to discuss the possibility of a joint venture. It made perfect sense. AGB had the new technology, Arbitron knew the U.S. market and had valuable long-term working relationships with broadcasters, syndicators and cable operators. Both had the money to invest.

"We spent maybe eight months talking in 1982 or 1983, and we gave them a lot of information about the marketplace," says Arbitron's president, Anthony Aurichio. But after picking Arbitron's brains for more than half a year, the Brits said thanks but no thanks.

Even though Arbitron advised against a long Boston experiment, AGB spent two years testing its system. "We had a reasonable expectation that one would move on, wire up the U.S., and that our customers would go on to support the service," says Sir Bernard. "They did not."

They did not because Nielsen was not sitting on its hands. The agencies and networks wanted Nielsen to improve its service, its attitude and its product. Which is exactly what Nielsen did. And with two years to cozy up to clients and develop its own people meter, the result was predictable.

Of the three networks, only CBS signed a contract for AGB's national service, but CBS says it was chiefly interested in prodding Nielsen. It believed that Nielsen's diary method was inadequate and that supporting AGB would force Nielsen to adopt similar technology. "We felt the second service would benefit the entire industry," says Michael Eisenberg, vice president of TV audience measurement at CBS.

CBS was right. By early 1985 Nielsen was testing 150 people meters nationally. It quickly geared up to install more meters, moving with a speed that surprised even its most loyal clients. By December 1985 there were 450 meters operating; by September 1987 there were 2,000. Nielsen had virtually recreated itself in record time. In doing so it had wiped out AGB's technological advantage.

Not one major agency planned its advertising buys in the 1987-88 season on the basis of AGB ratings. Since the agencies weren't supporting AGB research, NBC and ABC had no reason to support it either. "If agencies said they were using AGB numbers, we'd have been forced to subscribe," says Alan Wurtzel, senior vice president of marketing and research for the ABC television network group.

Adds Thomas Winner of the William Esty agency: "These are people we know, people who give us local TV data and product usage data as well as network ratings. We were not about to walk away just because somebody came from another country and said that they had another way of doing something."

The final irony is that nobody really likes the current people meter system either. Many question whether kids and teenagers are responsible enough to push their people meter buttons each time they walk into a room. More than that, it seems that now that Nielsen has wiped out any serious competition, everyone is once again stuck with a ratings system that will not be improved soon.

"What we really want is a truly passive system," complains ABC's Wurtzel. In a few years, he may well get it. See this issue's cover story.—**J.A.T.**

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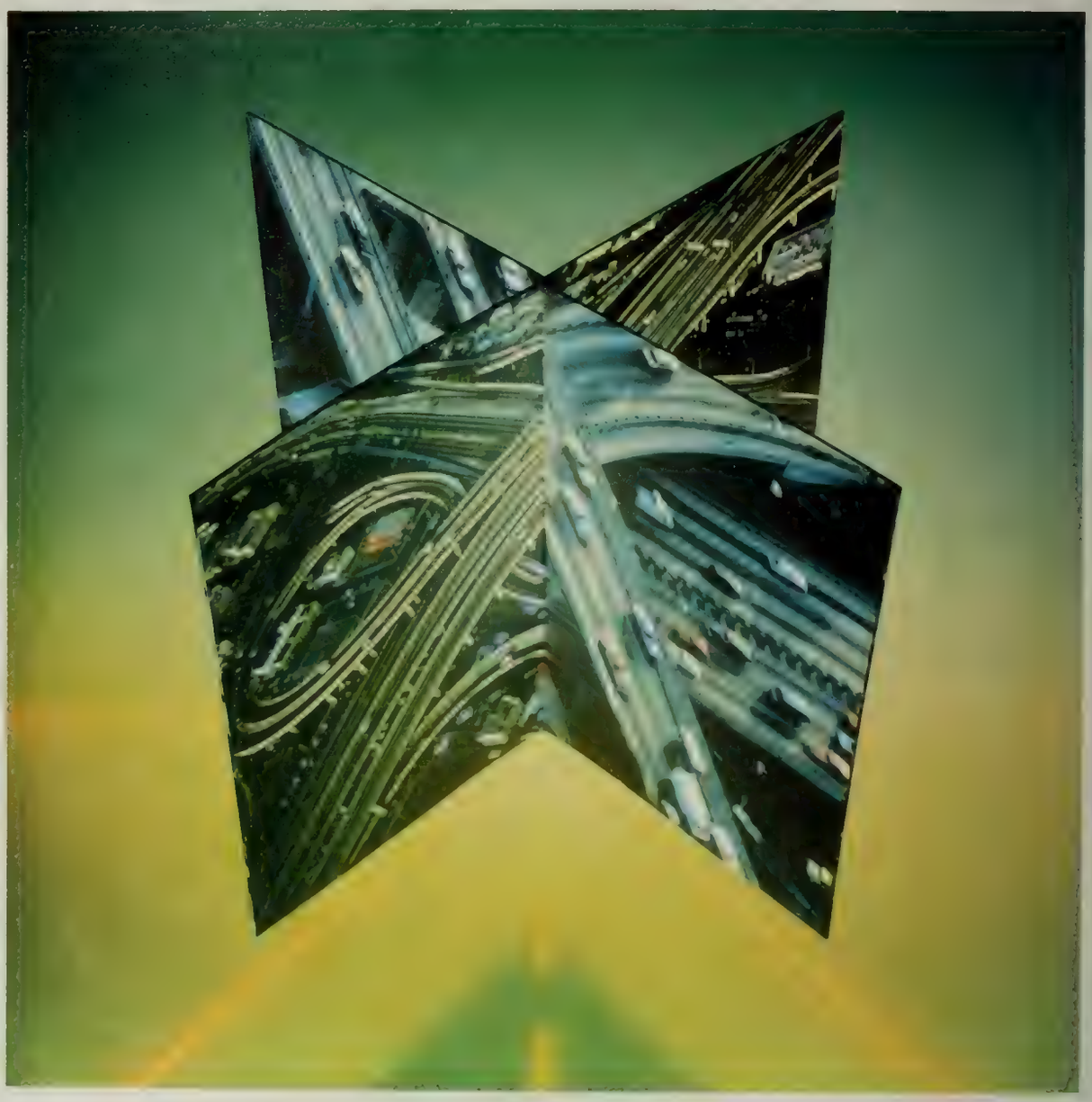

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Computers/ Communications

Thanks to developments in communications and switching technologies, the time is coming when the nation may get its home entertainment over telephone lines.

Good-bye cable TV, hello fiber optics

By Gary Slutsker

It's September 1998, a decade from now, and the Joneses have settled down for an evening at the tube. Joe Jones aims his remote control zapper at a 3-by-5-foot screen across the room and taps in a three-digit code to call up the fifth rerun of his alltime favorite flick, Rambo XIII. *The family doesn't drive to a videocassette rental store for a movie anymore, and the number of such outlets is shrinking anyway. Of course, there is network TV for free, but nothing much there grabs the Joneses tonight. It is time for a rerun of* Rambo. *Or almost anything else on film the Joneses can think of. It is all there—thousands of shows—ready to be punched up by computer.*

Welcome to the impending age of fiber-optic TV. Welcome to the fast-developing wonders of electronic switching systems. Watch out, investors in cable systems. Be alert, those of you who use TV for marketing purposes. Technology is about to change your [illegible]

Joe simply [illegible] his personal request code, sending an [illegible]ronic pulse from his zapper across the room into his television. From there the signal travels over a copper wire, known as a coaxial cable, to a shoebox-size device mounted on the side of his [illegible] the signal is converted by a [illegible]ght-emitting diode into pu[illegible] and flashed instantaneously [illegible] fiber-optic cable into [illegible] hood telephone network. [illegible]el is bundled together with [illegible] from Joe's neighbors, and [illegible] of Joe's town. Helped along by strategically placed laser amplifiers, within microseconds these electronic torrents of data have poured into a telephone company computer. There they are separated out as the computer identifies each caller, checks his credit, dials his number, then sends back the computerized data representing the program or movie he requested.

In a flash, Rambo *appears on the screen, with picture and stereo sound quality to rival anything available in a movie theater.*

Every piece of technology needed to carry out the above scenario exists today and will be tested in laboratories and in actual communities from Cerritos, Calif. to Heathrow, Fla. and Perryopolis, Pa. Those doing the pioneering research are not cable TV companies or even broadcast networks, but the nation's telephone companies, including independents like GTE Corp. and regional Bell operating companies created by the breakup of AT&T in 1984.

Four and a half years ago the Baby Bells were regarded as the ugly ducklings of the divestiture, stuck with providing local telephone service, while the onetime parent, AT&T, got to move into the more exciting and unregulated businesses of computer development and information processing. Now, however, the telephone companies are experimenting with providing residential customers with a raft of new services, from entertainment TV, to electronic Yellow Pages,

Andy Christie

Dial up anything

What's on the tube tonight? It wouldn't much matter if you could see what you want when you want. Punch in a code and electrical impulses travel from your TV along a copper coaxial cable to the side of your house. A light-emitting diode converts electrons into bursts of light, which travel on a glass fiber-optic cable. Down the street they are bundled with signals from neighbors and sent on the blue wires. The central office switches the signal over the red lines to the video library that has your program selection. The library's computer automatically recognizes the caller's number and ships back the program.

to on-line classified advertising and telemetry, like automatic meter reading and remote control of appliances. If they get their way, they will need a wider pipeline through which to pump all this information. That new pipeline is fiber optics.

Fiber optics is magic stuff. Its manufacturing, installation and maintenance costs are now approaching those of ordinary copper phone wire, it is immune to electrical or magnetic interference, it lasts 50 years, never corrodes, and it can carry enormously greater amounts of information than conventional copper wire can.

Most intercity and regional telephone wiring is already fiber optics, which is now being pushed out increasingly into residential neighborhoods. At the moment, the wiring into individual homes is still copper cable; telephone companies are not planning to begin rewiring large numbers of individual homes with fiber until at least 1995. But if regulatory and legislative hurdles to phone company involvement in cable TV are overcome, the pace of wiring will almost certainly accelerate. If the telephone companies have a prospect of additional revenues from home entertainment, it will pay them to speed up the pace of investing in fiber-optic systems.

When the fiber networks finally reach into almost every home (perhaps 30 years from now), the total capital outlay by the phone companies will have exceeded $200 billion, a staggering sum even for this industry. While financial and political obstacles remain, economic and technical problems are fast being solved.

"The telecommunications technologies are exploding," says Paul Shumate, manager of optical networks at Bellcore, the $939 million (1988 revenues) research [illegible] of the regional Bell operating [illegible] Shumate hands a visitor a [illegible] iconductor chip one-quarter [illegible] of a postage stamp. It is a [illegible] video switch capable of r[illegible] different video images to 16 [illegible] homes. Using computer-aide[illegible] ing termi-

Photos by Ken Kerbs

Three miles of fiber-optic cable
"An 18-wheeler isn't economical to deliver a loaf of bread. But it is, if you've got 10,000 loaves to carry."

nals, Bellcore scientists in Morristown, N.J. designed onto a chip the electronics they once could barely cram into a box the size of a small filing cabinet. Similar work is being done elsewhere on switches capable of handling the high data speeds required for video images, in labs from AT&T to Northern Telecom and Siemens.

To build a working model of what they expect will be the fiber-optic network of the future, Bellcore scientists are working to miniaturize and make cheaper various components—from light sources and photo detectors to switches to codecs. Inexpensive packaging devices for light sources like lasers and light-emitting diodes are now being licensed by eight manufacturers, including Hitachi, Mitsubishi and New Jersey-based Epitaxx. A few years ago laser diodes cost upwards of $2,000; today they sell for $30.

In Menlo Park, Calif., scientists at Raychem Corp. have come up with a way to interweave pulses of laser light so that nearly 200 homes can be served by a single fiber-optic cable. Meanwhile, the cost of a fiber-optic cable has plunged from $7 per meter in 1977 to 23 cents currently, even as copper prices continue to rise.

Good news for consumers, good news for the telephone companies. Bad news for cable TV. Fiber optics has the potential for rendering obsolete virtually the whole of America's existing cable TV wiring infrastructure. Fiber can transmit the signals, at lower cost and with higher quality, than can the conventional coaxial copper wires used by virtually every cable TV company.

For nearly 30 years cable TV operators have enjoyed a monopoly in the business of transmitting television signals over wire. Half of all American TV homes receive their television programming—including broadcast programs—via cable.

Out of this challenge to cable, a nasty political fight is certain to develop. In Washington, the first salvos have already been fired. In July the Federal Communications Commission gave the telephone companies a big boost. It tentatively concluded that Congress should lift its ban on cross ownership of telephone companies and cable franchises; a final report is expected by year-end. The FCC report followed a Commerce Department study that also urged letting the telephone companies compete with cable TV operators. However, the study recommended limiting telephone companies merely to transmitting programs that are created by others. The telephone companies chafe at such limitations.

Of all the potential services the phone companies could offer, video signals represent the greatest potential boost to traffic. "The entertainment business is the most obvious money," says Alan Arlow, director of government affairs for Ameritech, the Chicago-based regional Bell operating company.

Fiber optics are the phone companies' superhighways to carry information—literally billions of bits per second, versus 64,000 bits per second over existing copper wire. The problem for the phone companies is how to get sufficient volume over these cables to make them pay off. "If you've got to deliver a loaf of bread and you use an 18-wheel trailer truck for the job, it's not very economical," says John Gunter, vice president of information services for Atlanta-based BellSouth Corp. "But if you've got 10,000 loaves to carry, an 18-wheeler is a good thing to use."

Barred by federal law from getting into home entertainment and information in their own service areas, the phone companies have found a way in through the back door. They have won FCC permission to set up special arrangements with a number of small cable operators to transmit signals and in some cases provide programming services. To help them do this the phone companies are recruiting some prominent cable executives. Last month U.S. West hired Gary Bryson, the top cable strategic planner fo

ime Inc.'s American Television & ommunications, as vice president of evelopment to chart a strategy into ie cable business.

Masquerading as "tests," these venures have the larger cable operators owling in impotent outrage. When TE Corp. and its local phone compay subsidiary proposed such an arngement with Apollo Cablevision. distribute voice, data, and video gnals in Cerritos, Calif., just south f Los Angeles, the National Cable elevision Association petitioned the CC to stop the project. The petition as denied, and groundbreaking ban in June.

For all their political clout, the cale interests may be fighting a losing attle. John Waller, the able industry's leading urchase-and-sale broer, points out that the nrush of fiber-optic echnology will inevitaly force cable operators verywhere to join in. ut can they afford the ill? Compare that $200 illion-plus cost of etworking the country fiber optics with the omparatively puny 13.3 billion that cable perators have invested their own coaxial cale networks since 1975. he large cable operators ave only lately begun istalling fiber in their unk lines.

Bellcore's Paul Shumate in optical network laboratory, with fiber-optic electronics and high-definition TV
"The technologies are exploding."

Switching video signals over fiber ptic cable eliminates one of cable V's biggest headaches—the theft of gnals. In the most sophisticated soalled addressable cable setups, the able operator sends an electronically rambled signal of all the programing available on his system through coaxial cable to individual homes. here, a converter box atop each teleision set unscrambles the signal and lters out the program the viewer ants to watch.

The whole arrangement means that l programming on a system is potenally available to every individual bscriber. Thus, anyone with larcey in his heart and even a rudimenta understanding of electronics in his ead can jimmy the converter box so can watch shows he hasn't paid for. lower tech "trap" systems the probm is even worse. In Chicago's largt cable system, owned by Teleommunications Inc., cable theft ins as high as 30%.

With fiber and switches, programing is under software control at the central office and becomes virtually impossible to steal. When a subscriber decides to watch a particular program and turns on his TV to a particular channel, the mere act of selecting that channel sends an electronic pulse from the set all the way back up the line to a phone company switch—a computer—where the program is stored. The computer then sends that program back down the line.

This same "two-way" messaging ability of fiber is what makes it ideal for video on demand. This service will enable viewers to phone up all manner of video databases—from network programming to feature film libraries.

The current, early version of video on demand, known as "pay-per-view" TV, requires highly sophisticated "interactive" cable systems in which a viewer at home can tune in a championship fight, say, or a premiere movie, and have it sent directly to his own home set by the cable operator for a one-time charge. A number of pay-per-view companies such as Home Premiere Television, a cooperative venture of five leading cable companies, are struggling to develop the business in what is for now a very limited market of "interactive" cable systems. But cable operators are not in the message-switching business. In a switched fiber-optics world, the whole of American TV becomes interactive, with the potential that the business could explode.

Say you missed a show last night and want to catch it? Zap. Want a golf lesson? You got it. Your favorite old movie for the umpteenth time? Zap, there it is. You missed candidate Bush's acceptance speech and want to see it tonight? No problem. Telephone companies already possess the huge computer infrastructures, data storage facilities and switching systems that are the building blocks to eventually make such services work; cable companies do not. Says James Heyworth, former president of Time Inc.'s Home Box Office, who is now heading up Home Premiere Television, "Cable operators currently have the built-in advantage of already being in most of America's communities, delivering programming. But they need to keep pace with the technological changes multiplying around them."

In Canada and Britain, in fact, early versions of video on demand are already being tried. Later this month Saskatchewan Telecommunications will begin switching movies to cable TV customers in Regina, Sask., using a hybrid fiber-optic coaxial cable system. In London, some subscribers to a cable system 45% owned by British Telecom can now dial up a laserdisc "video jukebox" and have movies switched to their homes by fiber-optic and coaxial cable.

So-called single-mode fiber also turns out to be the best technology for transmitting high-definition television. HDTV represents the biggest single technological breakthrough in TV picture quality since the advent of color TV itself. Conventional television, whether black and white or color, uses 525 closely packed horizontal lines to form screen images. HDTV, by more than doubling the number of lines, produces images approaching the 35mm picture quality you see in movie theaters.

Not surprisingly, the cable industry's biggest pay service, HBO, is eager to convert its signal to HDTV, especially since HBO fears loss of viewers to super-high-quality "digital VCRs," which are expected to hit the U.S. market later this year. But the HDTV signal will likely require at least 8 megahertz of bandwidth, versus the 6 MHz allotted to conventional TV signals. That means a cable operator who chooses to carry high-definition channels would instantly lose capacity unless it strings up more cable.

With fiber, those constraints simply don't exist. And the phone companies are seizing every opportunity to hammer the point home. Last month, Southwestern Bell invited several hundred of its best corporate custom-

to on-line classified advertising and telemetry, like automatic meter reading and remote control of appliances. If they get their way, they will need a wider pipeline through which to pump all this information. That new pipeline is fiber optics.

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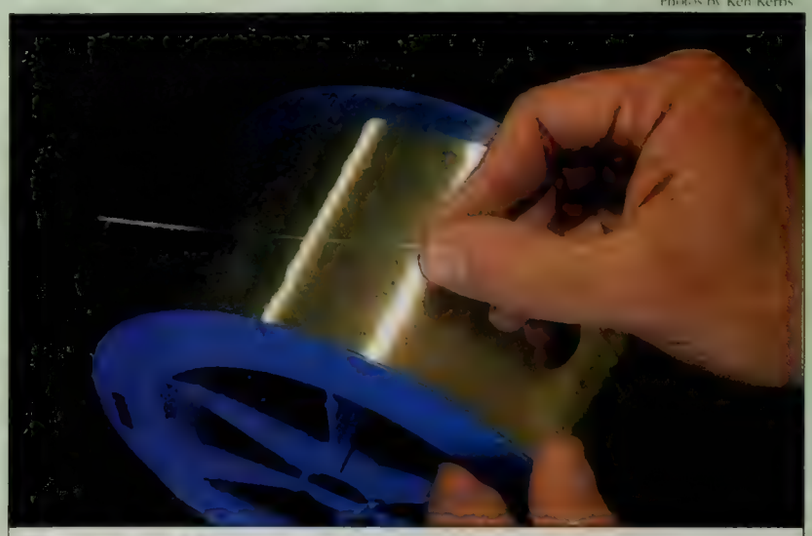
Most intercity and regional telephone wiring is already fiber optics, which is now being pushed out increasingly into residential neighborhoods. At the moment, the wiring into individual homes is still copper cable; telephone companies are not planning to begin rewiring large numbers of individual homes with fiber until at least 1995. But if regulatory and legislative hurdles to phone company involvement in cable TV are overcome, the pace of wiring will almost certainly accelerate. If the telephone companies have a prospect of additional revenues from home entertainment, it will pay them to speed up the pace of investing in fiber-optic systems.

When the fiber networks finally reach into almost every home (perhaps 30 years from now), the total capital outlay by the phone companies will have exceeded $200 billion, a staggering sum even for this industry. While financial and political obstacles remain, economic and technical problems are fast being solved.

"The telecommunications technologies are exploding," says Paul Shumate, manager of optical networks at Bellcore, the $939 million (1988 revenues) research arm of the regional Bell operating companies. Shumate hands a visitor a golden semiconductor chip one-quarter the size of a postage stamp. It is an integrated video switch capable of routing 16 different video images to 16 different homes. Using computer-aided engineering terminals, Bellcore scientists in Morristown, N.J. designed onto a chip the electronics they once could barely cram into a box the size of a small filing cabinet. Similar work is being done elsewhere on switches capable of handling the high data speeds required for video images, in labs from AT&T to Northern Telecom and Siemens.

To build a working model of what they expect will be the fiber-optic network of the future, Bellcore scientists are working to miniaturize and make cheaper various components—from light sources and photo detectors to switches to codecs. Inexpensive packaging devices for light sources like lasers and light-emitting diodes are now being licensed by eight manufacturers, including Hitachi, Mitsubishi and New Jersey-based Epitaxx. A few years ago laser diodes cost upwards of $2,000; today they sell for $30.

Photos by Ken Kerbs



Three miles of fiber-optic cable
"An 18-wheeler isn't economical to deliver a loaf of bread. But it is, if you've got 10,000 loaves to carry."

In Menlo Park, Calif., scientists at Raychem Corp. have come up with a way to interweave pulses of laser light so that nearly 200 homes can be served by a single fiber-optic cable. Meanwhile, the cost of a fiber-optic cable has plunged from $7 per meter in 1977 to 23 cents currently, even as copper prices continue to rise.

Good news for consumers, good news for the telephone companies. Bad news for cable TV. Fiber optics has the potential for rendering obsolete virtually the whole of America's existing cable TV wiring infrastructure. Fiber can transmit the signals, at lower cost and with higher quality, than can the conventional coaxial copper wires used by virtually every cable TV company.

For nearly 30 years cable TV operators have enjoyed a monopoly in the business of transmitting television signals over wire. Half of all American TV homes receive their television programming—including broadcast programs—via cable.

Out of this challenge to cable, a nasty political fight is certain to develop. In Washington, the first salvos have already been fired. In July the Federal Communications Commission gave the telephone companies a big boost. It tentatively concluded that Congress should lift its ban on cross ownership of telephone companies and cable franchises; a final report is expected by year-end. The FCC report followed a Commerce Department study that also urged letting the telephone companies compete with cable TV operators. However, the study recommended limiting telephone companies merely to transmitting programs that are created by others. The telephone companies chafe at such limitations.

Of all the potential services the phone companies could offer, video signals represent the greatest potential boost to traffic. "The entertainment business is the most obvious money," says Alan Arlow, director of government affairs for Ameritech, the Chicago-based regional Bell operating company.

Fiber optics are the phone companies' superhighways to carry information—literally billions of bits per second, versus 64,000 bits per second over existing copper wire. The problem for the phone companies is how to get sufficient volume over these cables to make them pay off. "If you've got to deliver a loaf of bread and you use an 18-wheel trailer truck for the job, it's not very economical," says John Gunter, vice president of information services for Atlanta-based BellSouth Corp. "But if you've got 10,000 loaves to carry, an 18-wheeler is a good thing to use."

Barred by federal law from getting into home entertainment and information in their own service areas, the phone companies have found a way in through the back door. They have won FCC permission to set up special arrangements with a number of small cable operators to transmit signals, and in some cases provide programming services. To help them do this, the phone companies are recruiting some prominent cable executives. Last month U.S. West hired Gary Bryson, the top cable strategic planner for

Time Inc.'s American Television & Communications, as vice president of development to chart a strategy into the cable business.

Masquerading as "tests," these ventures have the larger cable operators howling in impotent outrage. When GTE Corp. and its local phone company subsidiary proposed such an arrangement with Apollo Cablevision to distribute voice, data, and video signals in Cerritos, Calif., just south of Los Angeles, the National Cable Television Association petitioned the FCC to stop the project. The petition was denied, and groundbreaking began in June.

For all their political clout, the cable interests may be fighting a losing battle. John Waller, the cable industry's leading purchase-and-sale broker, points out that the onrush of fiber-optic technology will inevitably force cable operators everywhere to join in. But can they afford the bill? Compare that $200 billion-plus cost of networking the country in fiber optics with the comparatively puny $13.3 billion that cable operators have invested in their own coaxial cable networks since 1975. The large cable operators have only lately begun installing fiber in their trunk lines.

Bellcore's Paul Shumate in optical network laboratory, with fiber-optic electronics and high-definition TV
"The technologies are exploding."

Switching video signals over fiber optic cable eliminates one of cable TV's biggest headaches—the theft of signals. In the most sophisticated so-called addressable cable setups, the cable operator sends an electronically scrambled signal of all the programming available on his system through a coaxial cable to individual homes. There, a converter box atop each television set unscrambles the signal and filters out the program the viewer wants to watch.

The whole arrangement means that all programming on a system is potentially available to every individual subscriber. Thus, anyone with larceny in his heart and even a rudimentary understanding of electronics in his head can jimmy the converter box so he can watch shows he hasn't paid for. In lower tech "trap" systems the problem is even worse. In Chicago's largest cable system, owned by Tele-Communications Inc., cable theft runs as high as 30%.

With fiber and switches, programming is under software control at the central office and becomes virtually impossible to steal. When a subscriber decides to watch a particular program and turns on his TV to a particular channel, the mere act of selecting that channel sends an electronic pulse from the set all the way back up the line to a phone company switch—a computer—where the program is stored. The computer then sends that program back down the line.

This same "two-way" messaging ability of fiber is what makes it ideal for video on demand. This service will enable viewers to phone up all manner of video databases—from network programming to feature film libraries.

The current, early version of video on demand, known as "pay-per-view" TV, requires highly sophisticated "interactive" cable systems in which a viewer at home can tune in a championship fight, say, or a premiere movie, and have it sent directly to his own home set by the cable operator for a one-time charge. A number of pay-per-view companies such as Home Premiere Television, a cooperative venture of five leading cable companies, are struggling to develop the business in what is for now a very limited market of "interactive" cable systems. But cable operators are not in the message-switching business. In a switched fiber-optics world, the whole of American TV becomes interactive, with the potential that the business could explode.

Say you missed a show last night and want to catch it? Zap. Want a golf lesson? You got it. Your favorite old movie for the umpteenth time? Zap, there it is. You missed candidate Bush's acceptance speech and want to see it tonight? No problem. Telephone companies already possess the huge computer infrastructures, data storage facilities and switching systems that are the building blocks to eventually make such services work; cable companies do not. Says James Heyworth, former president of Time Inc.'s Home Box Office, who is now heading up Home Premiere Television, "Cable operators currently have the built-in advantage of already being in most of America's communities, delivering programming. But they need to keep pace with the technological changes multiplying around them."

In Canada and Britain, in fact, early versions of video on demand are already being tried. Later this month Saskatchewan Telecommunications will begin switching movies to cable TV customers in Regina, Sask., using a hybrid fiber-optic coaxial cable system. In London, some subscribers to a cable system 45% owned by British Telecom can now dial up a laserdisc "video jukebox" and have movies switched to their homes by fiber-optic and coaxial cable.

So-called single-mode fiber also turns out to be the best technology for transmitting high-definition television. HDTV represents the biggest single technological breakthrough in TV picture quality since the advent of color TV itself. Conventional television, whether black and white or color, uses 525 closely packed horizontal lines to form screen images. HDTV, by more than doubling the number of lines, produces images approaching the 35mm picture quality you see in movie theaters.

Not surprisingly, the cable industry's biggest pay service, HBO, is eager to convert its signal to HDTV, especially since HBO fears loss of viewers to super-high-quality "digital VCRs," which are expected to hit the U.S. market later this year. But the HDTV signal will likely require at least 8 megahertz of bandwidth, versus the 6 MHz allotted to conventional TV signals. That means a cable operator who chooses to carry high-definition channels would instantly lose capacity unless it strings up more cable.

With fiber, those constraints simply don't exist. And the phone companies are seizing every opportunity to hammer the point home. Last month, Southwestern Bell invited several hundred of its best corporate custom-

ers to watch an HDTV broadcast of a Cardinals-Phillies baseball game transmitted over fiber from Busch Stadium to the Fox Theater in St. Louis. And remember that overflow crowd that couldn't get into the Omni Center in Atlanta for July's Democratic National Convention, and watched on wide-screen TVs across the street? In the crowd was none other than House Energy & Commerce Committee Chairman John Dingell (D–Mich.), a key player in the forthcoming political fight to deregulate the telephone companies. As it turned out, the telecast he viewed was a closed-circuit HDTV signal provided by BellSouth through a fiber hookup. Said Dingell afterward, "It was an impressive picture. This technology is worth exploring."

Besides threatening the cable monopolies, all this new technology has the ability to change television viewing habits. With video on demand, the corner video store becomes a potential dinosaur. Even traditional network program scheduling becomes affected. If a late-night show interests you more than anything on prime time, you are no longer forced to watch the prime-time show. If you work late, you no longer need miss the 7 o'clock news. You watch what you want when you want.

The TV networks aren't sure how they feel about the changes erupting around them. "If people decide they want to pay for individual programs, turning TV into a lending library type of experience, prime-time revenues will suffer some erosion," agrees Thomas Rogers, who was NBC's vice president of policy planning and business development before being assigned to head up the network's new cable division in July. But if TV becomes a colossal lending library, networks could benefit from fees charged to watch individual shows at times other than when they were initially telecast, and the shows could wind up with larger audiences.

Tom Gillette, director of advanced operations testing at GTE Corp. is heading up GTE's arrangement with Apollo Cablevision in California. Says Gillette: "You will be able to dial in through a fiber-optic network to an NBC library, look in the current archives and have them send the show you missed. You're going to have a lot of libraries and you'll be able to see whatever, whenever and get billed by your telephone company."

Adds Frank Biondi, chief executive officer of Viacom International, a leading cable system operator and programmer, "Every show is potentially a prime-time show."

From an audience measurement standpoint, fiber-optic transmission over a switched network has enormous implications for advertisers. Because of fiber's two-way messaging ability, any video-on-demand system can precisely and automatically monitor which programs viewers are watching at any given moment. "That's a marketer's dream, if we use it correctly," says Page Thompson, executive vice president and media director for DDB Needham. "It may mean we can more finely pinpoint our advertising to specific targets."

This is potentially devastating news for ratings services like Arbitron and A.C. Nielsen that rely on small samples to extrapolate their numbers. Since most cable subscribers get their over-the-air TV via cable, they will be utilizing telephone facilities even when watching "free" TV. The phone companies, therefore, will be able to count audiences for advertisers far more completely than the current ratings services can.

Cable operators put on a brave face and say the deepening shadow of the telephone companies over their industry is no problem. But when the cable industry's eight most powerful men gathered in the woods of Massachusetts' Berkshire Mountains last month to brainstorm the future, the number one topic of discussion on everyone's lips was how to thwart the telephone companies by political action, since the phone companies are already winning the economic and technological battle.

However, the cable industry has been losing its grip on Congress ever since 1984, when passage of the Cable Communications Policy Act allowed

Heat on cable operators

Four years ago the cable television industry had friends galore in Washington. Now they're getting harder to find. This spring Congress held hearings on cable's future, and much of the testimony was devoted to heated complaints from local officials about shoddy service and price gouging by cable companies, as fever-pitch bidding keeps pushing system prices higher.

"Each sale increases the system's debt burden," explains Nicholas Miller, of Miller, Young & Holbrooke, a Washington, D.C. law firm that represents municipalities in negotiations with cable operators. "That pushes up costs and creates pressure to raise rates and cut expenses through fewer programming choices and reduced maintenance."

To cut costs, some cable systems have been skimping on customer service. In Chicago the average caller to [illegible]-Communications Inc.'s service line endures six minutes of recordings before getting to a human being. During the wait, of course, 25% of customers hang up.

In many parts of the country, cable rates are being pushed out of reach of subscribers. Last October, after the [illegible] sale in four years of the Delphi, Ind. cable system, its new owner, Star Cablevision, raised rates 78%, to $16.95 a month. Or take Laredo, Tex., which has the second-lowest per capita income—$6,850—in the nation. Some 76% of its residents subscribe to cable because over-the-air reception is poor, yet rates have climbed 28% in four years, and with the latest sale seem likely to rise at least 150% more, to $30 a month.

To get relief, communities are turning to Congress. In Ashtabula, Ohio (pop. 25,000) the cable company, TCI, last year raised basic rates 38% while dropping a popular local Cleveland station and C-Span, which cablecasts Washington congressional hearings, from its channel lineup. Public outrage reached the ear of Ashtabula's Democratic congressman, Representative Dennis Eckart, a member of a House subcommittee about to hold cable hearings. When Eckart gave TCI President John Malone a tongue-lashing, a red-faced Malone dispatched a TCI vice president to Ashtabula to soothe the locals. Now service is better and C-Span is back, along with the Cleveland station. Unfortunately, most communities don't have the lucky clout of tiny Ashtabula.—**Michael Fritz**

most operators to set unregulated "market rates" while still preserving their monopoly status in each franchise area. Since then, prices for cable systems have gone wild, from $1,600 per subscriber, which in 1985 seemed to FORBES to be astronomical, to $2,700 recently. To pay these prices, buyers goose up the rates on the systems they acquire, increasing cash flow, then sell to the next bidder.

As if on cue, late last month Middleburg, Va. businessman Jack Kent Cooke announced that he was putting up for sale Cooke CableVision, a 700,000-subscriber network that he had bought for $1,800 a subscriber only 18 months ago. His offering price now: $2,800 per subscriber.

The cable operators will have a hard time arguing with the following numbers: In 1987 consumer prices rose less than 4%, and the cost of residential telephone service actually declined by 1.3%. But the price of basic cable service went up 16%. "The cable operators in the last few years have broken the greed meter," says Robert Schmidt, who served as president of the National Cable Television Association from 1975 to 1979. Now as president of the Wireless Cable Association, Schmidt is fighting the cable industry, which he claims is preventing satellite cable systems from gaining access to programming.

When Congress held hearings last spring regarding business practices of cable operators, angry local officials descended on Capitol Hill with horror stories of price gouging by cable operators *(see box, opposite)*. "In my own area, smaller cable systems have changed hands not just once but several times," says Representative Thomas Tauke (R–Iowa), who sits on the House Telecommunications & Finance Subcommittee, which held the hearings. "What happens is the price goes up, and the higher servicing costs on the debt means that the rates have to come up. And consumers are starting to complain to members of Congress." Even the author of the deregulatory 1984 act, Senator Timothy Wirth (D–Colo.), is mulling the merits of reregulating the operators that he only recently unfettered.

For the phone companies to enter the cable television business, Congress will first have to amend the 1984 act to allow them to do so. Then the Baby Bells will have to go a step further and convince U.S. District Court Judge Harold Greene, who presided over the 1984 divestiture decree, to go along with Congress.

Leading the lobbying charge for the telephone companies is John Sidolski, president of the U.S. Telephone Association. "I think our chances are pretty good in Congress," he says. "We believe we can do it cheaper, better, faster than cable can."

As the law now stands, the cable companies have things pretty much their own way. For example, phone companies can't transmit TV signals in their own service area, but cable companies can transmit voice and data signals—the twin mainstays of the phone business itself. Manhattan Cable, a Time Inc. unit, has been providing data and voice communications for Wall Street investment houses and banks for years; another Time Inc. cable operation has been transmitting data in Kansas City, Mo.

To fight off the phone companies, the cable operators—some of whom have become centimillionaires on the strength of their artificial monopolies—can be expected to pose as little fellows threatened by the giant phone companies. The argument may not wash. "We don't have any problem with competition as long as we're competing on a level playing field," says NCTA President James Mooney. "We just don't want the telephone companies to compete in their own service areas." He is proposing, in short, that the phone companies be prevented from getting maximum economic use from their fiber-optic networks. If the cable companies have their way, technology will be thwarted, and consumers will pay more for their home entertainment. ■

Ed de Castro's Data General became a hot company by getting in early on the minicomputer boom but went cold when that boom did. Now it sees new opportunity.

The fourth wave

By Kathleen K. Wiegner

WHEN TECHNOLOGY CHANGES, it brings lingering death for those who don't see it coming. Edson de Castro, the 50-year-old founder and chief executive of Data General Corp., sees his $1.3 billion (sales) firm at such a juncture.

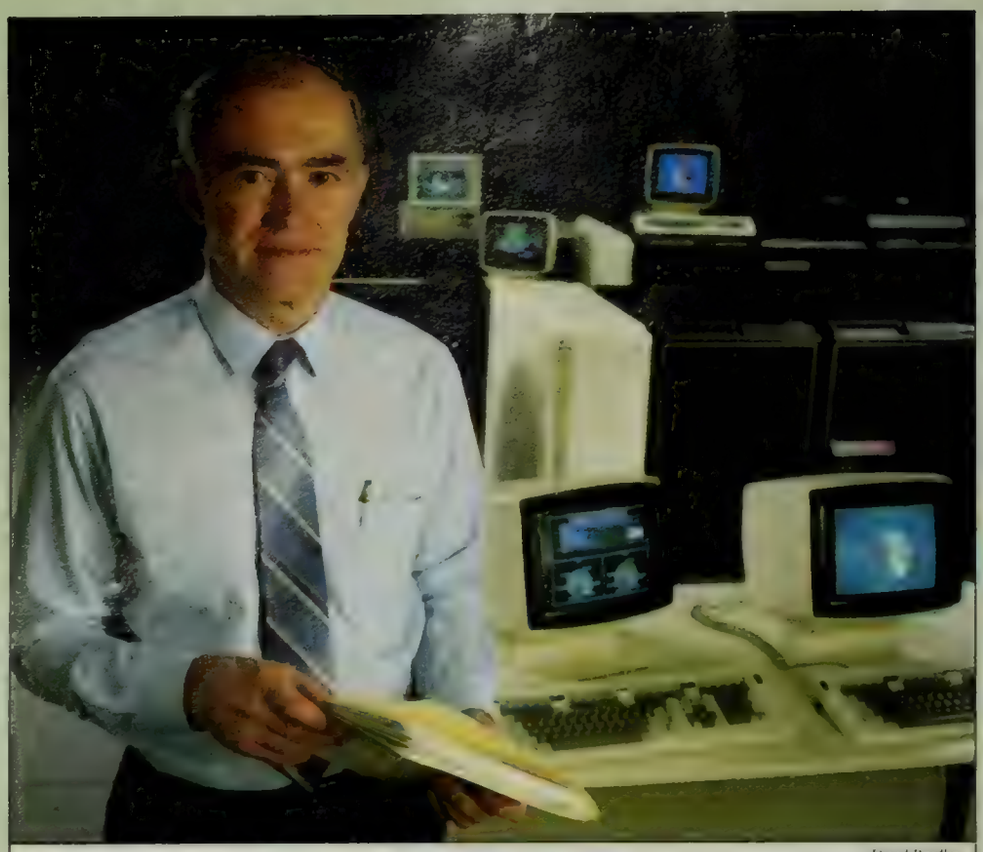
De Castro talks about his industry in terms of waves. The first wave was dominated by mainframe computers, the second by minicomputers like Data General's. The third wave—the spread of PCs and workstations—opened vast new markets among customers who couldn't afford or didn't need a big mainframe computer.

Now, says de Castro, the computer industry is about to undergo a fourth wave of change. Until recently it was difficult to mix and match equipment from different manufacturers within the same system. Now open architecture and interchangeable parts are becoming the norm.

Data General rode the crest of the second wave but missed the third wave. Its ability to catch number four and ride it will determine its survival.

Westboro, Mass.-based Data General, which de Castro founded after quitting his engineer's job at Digital Equipment at age 29, was a sizzler during the second, minicomputer, phase. Data General's earnings roared upward 12,500% between 1970 and 1980. Its engineers were celebrated in the Tracy Kidder bestseller *The Soul of a New Machine.*

But in the past eight years the company has stumbled again and again, its recoveries interrupted by further slumps. In the fiscal year ended last Sept. 26, Data General turned in a loss of $127 million, including $118 million of nonrecurring items, following on a $29 million loss in 1986. Since July of 1987 the company has announced four plant closures, a 6% reduction in the work force and two management shuffles. The company got its fiscal 1988 off to a strong start, only to report a pathetic 6 cents a



David Bradley

Data General Chief Executive Edson de Castro
A minimaker humbled by the success of the personal computer.

Comp/Comm

share of earnings for the third quarter, which ended in June.

That's the way it is in the computer business. Not only must you catch a wave of change early, but you must be alert for the inevitable cresting and for the next wave. Data General's early success was in producing cheap, reliable minis that could handle the tasks of far more expensive mainframes. Now the makers of personal computers and the slightly more powerful workstations are giving Data General a taste of its own medicine.

In the glory days 70% of Data General's sales had been to other manufacturers, which added their own enhancements and often their own nameplates and sold the machines to the final customer. But in the early 1980s de Castro decided to emphasize direct sales to large corporations—prime DEC and IBM territory. He hired a group of IBM types. They helped land some big accounts—at E.F. Hutton, the U.S. Forest Service and Beneficial Corp., for example—but the end-user business ended up doing almost as much harm as good. The IBM types never quite meshed with Data General's more freewheeling people; most of the former left. During all these distractions Data General alienated many of its traditional customers.

Data General wasn't large enough to compete with DEC and IBM, and it also missed opportunities at the lower end of the computer spectrum. Upstarts like workstation maker Sun Microsystems and personal computer maker Compaq Computer filled in the gaps and have become almost as large as Data General.

With major changes looming again in the business, de Castro is determined not to miss out this time. Here's the story. Almost since the computer industry began, every vendor sold proprietary systems incompatible with every other vendor's systems. Data General was no exception. Once it got its foot in a customer's door, the seller enjoyed a quasi-monopoly, since it was difficult and costly for a user of IBM equipment, say, to switch to a Data General, or vice versa. But in the third wave, companies like Sun and Compaq produced small machines that could be used with other manufacturers' systems.

Says de Castro: "It is humbling to look at the personal computer, which preempted a market which historically we could have had. We needed to look at the forces that shaped that industry." The Suns and Compaqs were growing precisely because they were not locking up customers with proprietary systems. Instead they were creating "open" systems: that is, buying standard microprocessors from Intel and Motorola, licensing standard software from Microsoft or AT&T, and creating products that made it easier for customers to mix and match equipment and programs from many vendors. Once this happened, the market for minicomputers such as Data General makes began to dwindle.

"There was no question that our core business had peaked and was about to decline," says de Castro. "So we asked ourselves, given this reality, what did we need to do to make ourselves a growing company again?"

Though Data General will not abandon its installed base, future growth will come from systems that will be built around products like AT&T's Unix operating system and Motorola's newest 32-bit microprocessor, which uses the principles of RISC (reduced instruction set computer) to achieve lightning speed at low cost. De Castro wants Data General to become the leading supplier of such standards-based products.

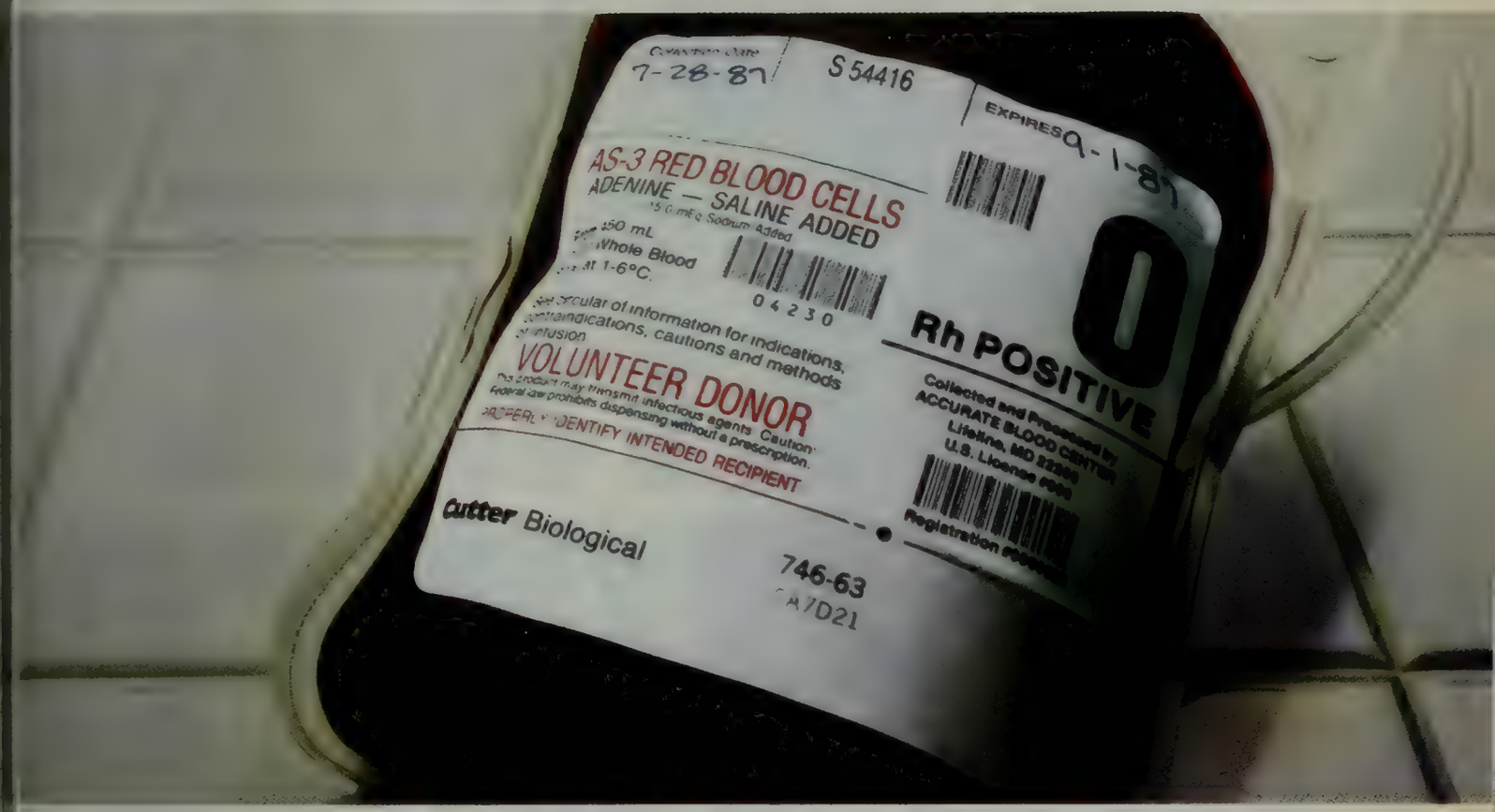
Data General still has a reputation for turning out technically excellent machines. In a standards-driven world, the low-cost producer has an advantage, and Data General has been a price/performance leader in the past. The company is also strong in communications, which will become more critical as small computers are linked into networks. Data General is working with telecommunications giant Nippon Telegraph & Telephone on a digital network that will provide integrated data, voice and computer networks for private corporations.

Data General approaches this future with becoming modesty. It is making no grandiose promises. Says Herbert Richman, a Data General executive vice president and cofounder: "We think we see light at the end of the tunnel, but it's a long tunnel."

Richman and de Castro know that Data General is not the only company riding the fourth wave. Sun Microsystems has long been a proponent of Unix and has its own RISC chip, which it has pitted against the Motorola chip. There are no guarantees that the Motorola RISC chip on which Data General is betting will become a standard.

The waves come fast in this business, crest and then ebb. Data General's once high-flying stock is now becalmed at around 80% of its $22 book value. If the company catches the current wave, its shareholders could profit handsomely. If it doesn't, the company might well end up a takeover target. ■

The difference between saving a life and threatening it.



arted out as a trip across town. denly, you're in an ambulance rac- to the hospital. It's an emergency. atter of life and death. You've lost d. The doctors tell you that 're going to need a transfusion. ow, you're really scared. he AIDS virus has changed the we think about transfusions. It's le us cautious. What hasn't ged is the importance of the transfusion to our medical procedures. It's vital.

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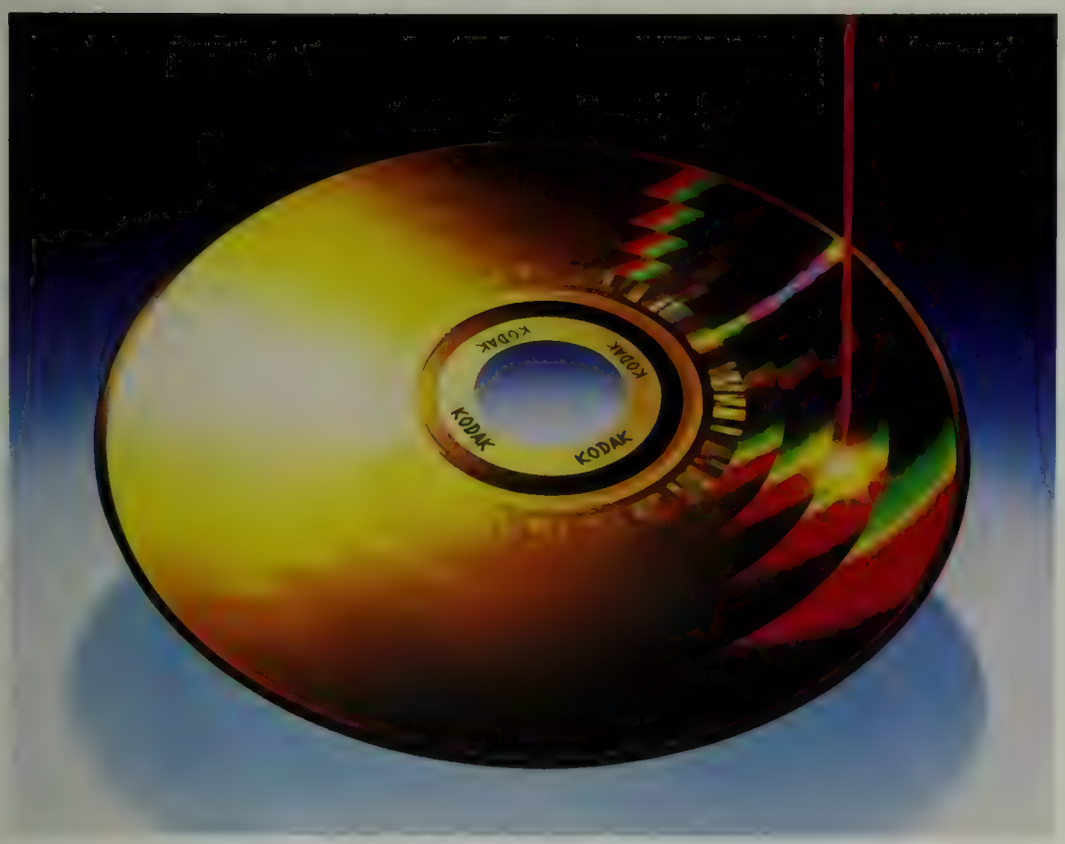

Imagine a single disk, the size of a long-playing record, that can hold 100,000 pages of information. An optical disk from Kodak. With keyboard input, the capacity is over 2 million pages. It would take 6,000 floppy disks to match it. The highest-performance highest-capacity archival optical disk in the world.

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The new vision of Kodak

stman Kodak Company, 1987

A large database with widely varying demands put on it can give rise to a rat's nest of application programs. Undoing that mess is the work of relational databases.

How do you know when the ATM is out of 20s?

By Ignatius Chithelen

A GENERATION OF computer users is discovering a basic fact about information that any file clerk already knows: Filing data is easy; getting at them later can be a pain. That problem of getting the data you want when you want them is what relational database system are all about.

Relational databases began with some theoretical work at IBM more than a decade ago and are now producing revenues for such software houses as Oracle, Relational Technology, Sybase and Informix. The Food & Drug Administration, for instance, uses relational database software from Oracle to monitor clinical studies of experimental AIDS drugs. Canada's Northern Telecom has a Sybase system for tracking phone line failures.

Just what is a relational database? It's easier to define what it isn't. It isn't the traditional hierarchical arrangement of computer data. A library is hierarchical. Nonfiction is on the second floor, architecture is in the 17th aisle and *From Bauhaus to Our House* is on the fourth shelf. The arrangement works fine if all you want is to get one book. But what if you want all of an author's books grouped together? Tom Wolfe is now on two different floors. What if you wanted to know how many books were published by Farrar Straus & Giroux?

In the same way, demands put on [illegible]'s databases routinely cut [illegible] organizational lines. A bank computer, for instance, must be able to keep together all the data associated with one automatic teller machine [illegible] it knows when the machine is out of $20 bills. Simultaneously [illegible] information by account number. The system should refuse authorization if a card is used, say, five times within a few minutes, or if it is being used simultaneously at two different places. And then at the end of the month a marketing person will want some information on card usage patterns.

Hierarchical data files can handle such demands, provided they are meticulously programmed step by step in a computer language like Cobol. The programmer has to know exactly where each fact is stored—how each floor, each aisle, each shelf of the library is arranged, as it were. The trouble comes when someone wants to rearrange the books or wants some new report not contemplated in the original system.

A relational database almost enables users to free-associate. In 1979, working from theoretical models published by IBM, Oracle Systems, and later Relational Technology Inc., introduced a relational database system for the rapidly growing Digital Equipment Corp. minicomputer market. To access data, users simply specify what they want, not how to get it. The software searches out the information on its own and presents it in the form of a table. Key to the power of the program is its ability to relate two different files of data, so long as they have some element in common. To use the library metaphor again, all the books by Tom Wolfe. A file of orders that includes a customer number for each could thus be linked to a file of deadbeats.

Oracle borrowed another good idea from IBM: the English-like commands of IBM's Structured Query Language with which users define, retrieve and manipulate data.

IBM introduced its own relational database software for mainframes in 1982, leading to the establishment of its technology as an industry standard. Relational databases are widely used now in scientific research and the defense and pharmaceutical industries for "decision support" applications in which the same batch of data must be analyzed from many different perspectives. Now such software houses as Oracle and Relational Technology are aiming all the way down into the microcomputer market, competing with Ashton-Tate and Informix. "There are millions of PC users out there. It is absurd to expect them to spend two years studying Fortran or Cobol before they can use their PCs," says Richard Finkelstein, a database consultant in in Chicago.

For a while, Oracle had the clear lead among the independent software suppliers in this business; in the past two years it has quintupled to $28[illegible] million in sales. But upstart Sybase, which has been around only since 1984, is giving it a run in the transaction processing segment of the business: travel reservation, banking, securities trading. Finkelstein says Sybase is often faster than its competitors on a network of computers. But whatever the version that captures most of the business, it seems that yet another of yesterday's exotics has become today's necessity. ■

Commentary by Esther Dyson

OS/2 IS GOOD FOR YOU

Much controversy surrounds IBM and Microsoft's new operating system, OS/2. Some people are wondering why we need this souped-up system, whether it's just one more piece of buzzware foisted on an unsuspecting public.

The critics are all wet. The same people who complain about the complexities of OS/2 are frequently the ones complaining about the flaws of the old operating system, DOS. Well, it is precisely to fix those flaws that OS/2 was designed.

An operating system is the software foreman in a computer, telling the application programs—the ones that run spreadsheets or edit manuscripts or whatever—when and where they can undertake their tasks. Microsoft's DOS is the current operating system standard for personal computers from IBM and most other vendors, except Apple. It does have its limitations, being inadequate for the newer uses of PCs, such as supporting network operations, transactions (like buying tickets), and design (such as engine parts, factories or software itself).

DOS was fine for individual users doing individual tasks. But as people expect more from their personal computers, and expect those machines to hook together, they need a more powerful operating system. And that is just what the new Microsoft/IBM OS/2 system—when coupled with more powerful machinery—supplies. The more powerful machinery includes a faster processor, more memory and more disk storage. But without a better operating system—in this case OS/2—the extra machinery is of little use.

The naysayers point out that you can achieve most of these things through other means. There are countless packages out there that will ease the memory constraints imposed by DOS, run several programs at one time and help the programs to communicate with one another.

The problem with the ad hoc so-

lutions to DOS' limitations is that they are just that, ad hoc. While they may work very well for a particular situation, there is no single standard way of doing anything. Two packages may communicate well with each other, but not with any other. One application solves the memory limitation using one approach, and another solves it with another, so they can't inhabit the same machine at the same time—which was the point of it all.

Quite apart from its intrinsic virtues, which are real, OS/2 has the advantage of being, potentially, a standard. Programmers can count on its being around, and on its use by other applications that their applications might need to talk to.

Some potential corporate purchasers are distressed that OS/2 costs a lot and currently provides no visible benefits that aren't offered in some other way. This is true only until OS/2-specific applications start showing up.

As people demand more things from their PCs, the virtues of OS/2 will become more apparent. In the future, many users will share applications on a network of machines, and these applications will have to communicate. Applications themselves will lose their discreteness, and will instead become collections of functions, all of them individually available to the user at any time. For that to happen, the functions need to be able to communicate by way of a common environment—namely, OS/2. This arrangement will allow users to choose the best of anything, and will make the transfer of structured information, not just files, from one program to another a lot easier.

Another vital feature of OS/2 is its ability to keep several balls in the air. You might be able, say, to search a database while continuing to work on the draft of a memo which remains on your screen. Or perhaps a program will check your architectural drawing for consistency even while you draw new lines and boxes on the screen.

True, if you're a software developer, OS/2 is large, slow and hard to write for. Yes, but that is akin to complaining that a car takes more time to learn to drive and to care for than a bicycle.

And true, there are few applications on OS/2 that would make anyone run out and buy it. The mere presence of OS/2 does not send out death rays that suddenly render DOS systems useless.

IBM and Microsoft announced OS/2 early so that they could get developers to write applications for it. The result is that users find the wait extremely long. But it's about to be over. Most of the interesting new applications I see are being developed for OS/2, not for the Macintosh and only occasionally for Unix. These include systems for document management, transaction processing, groupware (managing work flows within a team), computer aided software engineering and a host of database applications.

Of course, there's the Unix operating system, which does all these things already, and is coming on strong. Unix will have its place in a world of multiple operating system standards—made possible by better communication across operating systems. But Unix will give IBM and Microsoft a run for their money only if the companies behind Unix (Sun and AT&T on the one hand, and the Open Software Foundation on the other) can resolve their differences and present a united front. At the moment they have not.

And of course there's Apple's Macintosh, the personal computer success story of the last few years. But the Macintosh's major strength, its accessible, intelligible interface, is about to meet its match in OS/2's Presentation Manager window system. This is what makes OS/2 the one to use when you want to use more than one application. ■

Esther Dyson is editor and publisher of the newsletter Release 1.0.

Personal Affairs

Edited by William G. Flanagan

Fractional ownership is the latest gimmick in peddling resort properties. Salespeople love it. Should you?

Home sweet one-quarter home

By Edward Giltenan

RESORT PROPERTY requires much deeper pockets—and a lot more optimism about future vacation home prices—than a lot of would-be buyers have these days. "Let's face it, you're talking anywhere from $200,000 to $600,000 for a nice home in a prime vacation area. That's more than most people can afford to put out. And a lot of people who can afford it view it as ridiculous to spend that much," says Steven Miner of Eugene, Ore.'s Ragatz Associates, which does resort market research.

If you vacation in a certain area often, renting may make more sense than buying. The owner may be subsidizing you, and thanks to tax reform, without Uncle Sam's blessings.

Even the much-maligned time-sharing concept is finding new converts, at least at resorts that are something more than spruced-up motels *(see p. 72)*. But the newest kid on the block is fractional ownership.

Unlike time-sharing, fractional ownership gives you deductions for mortgage interest and taxes. Other considerations:

- Your use of the property rotates. For example, with quarter ownership, by far the most common form of fractional, you typically get one week of use in January, and a total of six fortnights staggered evenly through the rest of the year. The schedule rotates annually so that the seasons are divvied up fairly. This is not written in stone. Owners are free to work out schedules, with the resort manager resolving disputes.
- You can rent out your unit. If management rents it for you, it takes a 25% to 50% cut, but you're spared any hassles. And someone is always watching or using the property.
- You can trade unused weeks for space at other resorts, as is promised with time sharing. For example, quarter-share owner Jack Boyd, a retired high school principal from Toronto, hasn't spent a single day at Brigantine Quarters, Hilton Head, S.C. this year, choosing to swap through Resort Condominiums International (which represents some 1,400 resorts worldwide) for space in properties in London, Florida, and Williamsburg, Va.

But there are powerful drawbacks to fractionals.

- You pay a stiff price. Typically, although you own only a quarter of the property, you pay about 33% of what it would cost to buy the whole.
- It may be harder to resell fractionals, and a real estate company typically takes 10% or more of the selling price, unless you sell it on your own.
- Financing can be expensive. Many buyers take second mortgages or home equity loans on their principal dwellings. At Virgin Grand Villas on St. John, Virgin Islands, general manager Edward Burchett says 75% of his purchasers finance their homes on their own, rather than through the developer's bank.
- Management and club fees can be stinger at some resorts, and can escalate indefinitely. Read the management contract carefully.
- You cannot decorate the place the way you want. If you don't like the original furnishings, there isn't much you can do about it, unless your co-owners agree. (Many properties do give you some permanent storage space, however, for golf clubs, tennis gear and the like).

As resort building has outpaced demand, sales folk have looked to broaden the market. Fractional ownership seems to be a potent sales tool. The number of resorts offering fractionals is now around 60 in the U.S., in places like Vail, Aspen, the Ozarks, Florida, Texas, Stowe in Vermont, and the Poconos. (For a list of properties offering fractionals, send a stamped, self-ad

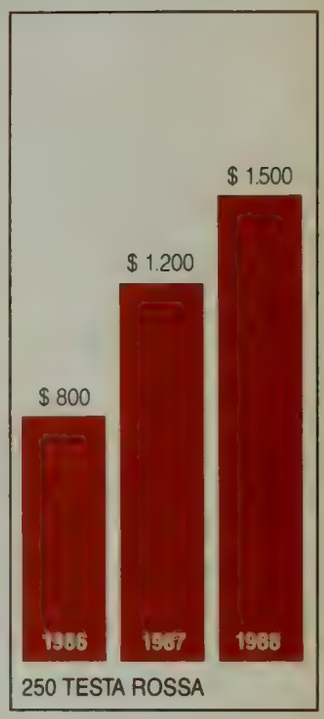
[illegible] sales director of Sea Quarters, New Seabury, Mass
A quarter of a condo for about a third of the price.

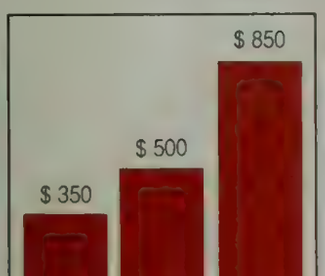
RED GOLD
CLASSIC FERRARI CARS
HOW TO PROFIT FROM LEGEND

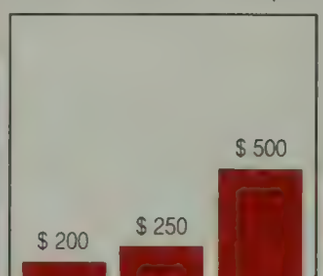
Two colours which, together, provide a rare opportunity that of combining business with pleasure.
Over recent years, the market value of classic Ferrari automobiles has grown considerably more than that of most gilt-edged investments, as these graphs clearly show. Now, a unique auction, exclusively of Ferrari's each one a collector's item, offers an occasion not to be missed that of discovering golden value in Ferrari red.

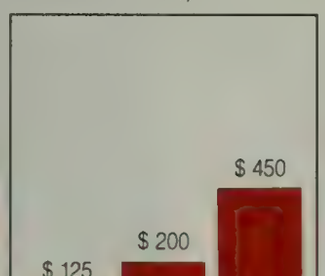
In the enchanting scenario of Monte Carlo, at the Espace Fontvieille "Chapiteaux" in Monaco's new port, an extraordinary and exclusive auction of Ferrari classic cars will be held.
Sunday October 9, 1988 at 3 pm.
A large selection of magnificent Gran Turismo and racing Ferraris built between 1950 and 1974 will be auctioned.

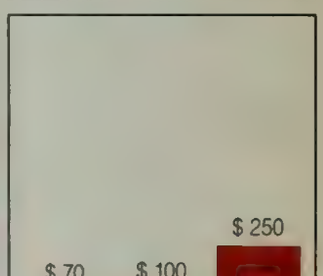
PRICE ESTIMATE OF FERRARI CLASSIC CARS (IN THOUSAND OF U.S.$)











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dressed envelope to American Resort & Residential Development Association, Dept. 15, Suite 510, 1220 L Street, N.W., Washington, D.C. 20005.)

Even highly seasonal resorts in places like the Northeast are beginning to sell properties by the piece. Take New Seabury, for example, a 2,000-acre village on Cape Cod. It offers full as well as partial ownership of condominium units. "As our prices go up, we don't want to lose our younger customers," says Christopher Burden, the New Seabury developer.

Consider the numbers at New Seabury, where you can buy a 1,750-square-foot duplex with two bedrooms and baths, plus small pool, on scenic Promontory Point. It hugs one of the resort's two golf courses and is a short walk to the beach on Nantucket Sound. Cost: $400,000 to $430,000, unfurnished. Monthly maintenance is $420 not including utilities, your personal real estate taxes or insurance for the contents of the home.

Or you can buy into New Seabury's new quarter-share development, Sea Quarters, adjacent to Promontory Point. This is a kind of scaled-down product. You can buy 13 weeks in a smaller, furnished two-bedroom, two-bath townhouse with Jacuzzi and fireplace. And you have the same access to New Seabury's 3 miles of beachfront, 16 tennis courts, beach club and marketplace. Cost: $84,900. Maintenance is $225 a month, which covers repairs and replacement of furnishings, utilities, taxes, insurance, cleanup, fresh linens upon arrival, landscaping, etc. There's no need to ever meet or know your co-owners.

Virgin Grand Villas, on St. John
Fractional financing is up to you.

Fractionals are clearly an excellent deal for developers, who are meeting sales resistance because of high prices. Not only does it give them a lower sticker price to offer, it has other sweeteners. Fractional sales net about 25% to 50% more than individual sales. And fractional buyers pay proportionally higher maintenance and resort use fees. In addition, some developers charge high resale commissions (10% or so).

If you go the fractional route, don't expect appreciation. Even though resort home prices have skyrocketed (single-level patio homes in New Seabury have jumped 344% since 1980, for example), fractional ownership has no such history. Rick English, a Chattanooga, Tenn. developer, was happy to get his money back when he sold his quarter share in Brigantine Quarters in Hilton Head for roughly what he paid in 1985: $66,000.

So if you do go for fractional ownership, don't kid yourself into believing you've made a good investment. You haven't. Convenience you'll get. A retirement nest egg, no way.

Paper-thin slices of the old India

If you like your art in small packages, take a look at Indian miniature paintings. They are not everyone's cup of tea, of course, but numbered among collectors are Jacqueline Onassis, John Kenneth Galbraith and film director James Ivory.

An interest in Indian history and culture is key to fully appreciating these miniatures, which typically are a little bigger than the dimensions of this magazine. Indeed, miniatures were used to illustrate manuscripts, though few of the original bound volumes exist intact.

Most were produced by anonymous artists at the Rajput and Mughal courts, which dominated India from the 16th to the mid-19th centuries. Collectors also prize miniatures belonging [illegible] so-called Company [illegible] named after the East [illegible] Company, which helped [illegible] stage for the formal assumption of India's government [illegible] the British in the [illegible]

Wh[illegible] of the subjects are h[illegible] or religious, a fair [illegible] plainly erotic as well.

Steve Benbow

Francesca Galloway of London's Spink & Son
India's history in miniature.

The Mughal art form, derived from Persia, first flowered in India almost 500 years ago. Those early paintings, watercolors on handmade paper, depicted everything from kings in their regalia to erotica to splendid gardens. Old Persian miniatures, almost impossible to find, can cost tens of thousands of dollars.

The Mughals, who came to India from Central Asia, brought the Persian miniature art form along with them. Like the original Persian paintings, the Mughal miniatures made rich use of color and were exquisitely detailed. Mughal emperors were known to take great pride in the work of their portraitists.

For many years miniatures served as a sort of record of court life. For example, the paintings commissioned by Emperor Jahangir (1605-27) reflected imperial taste and interests: elephant fights, feasts, festivals and horse races.

The princes of several hill states in northwestern India and in the Uttar Pradesh area near New Delhi took an espe

DEWAR'S PROFILE

PETER NORTON

AGE: 43.

HOME: Santa Monica, California.

PROFESSION: Computer wizard. Chairman and CEO, Peter Norton Computing Inc.

HOBBY: Making contributions to L.A.'s many art museums. "When life hands you a large slice of the pie, you share."

LAST BOOK READ: *Don Quixote*, Miguel de Cervantes.

LATEST ACCOMPLISHMENT: Seeing his name in lights. At the Museum of Modern Art where he's on the board of directors.

WHY I DO WHAT I DO: "As a kid, I loved those things on your coat that were supposed to keep you from losing your mittens. Who else would design a program to find information 'lost' in your computer and then build a business on it?"

QUOTE: "I can't believe my life is happening to me."

PROFILE: Quiet, committed and independent. "Not really, I'm just your classic nerd who got lucky."

HIS SCOTCH: Dewar's "White Label" with water. "It's as much of a splash as I'll ever make."

cially keen interest in the art form, and their court artists produced some of the most eagerly sought-after paintings, called *pahari*.

Eventually, as India became exposed to the West, miniatures began to reflect Western painting techniques, without losing their essential Eastern qualities.

The best collections of Indian miniatures are at New York's Metropolitan Museum of Art, the Brooklyn Museum, Boston's Museum of Fine Arts, the Los Angeles County Museum, and the Victoria and Albert Museum and the British Museum in London.

If you want to collect authentic miniatures (beware—fakes abound), stick to the handful of recognized dealers and auction houses that will stand behind what they sell, such as Spink & Son in London, which periodically stages major shows.

Sotheby's and Christie's regularly auction miniatures, Sotheby's in both London and New York. Many large museums, like the Metropolitan, have curators who specialize in Indian art and can be good sources in recommending where else to look for miniatures.

Prices vary, of course, depending on the age, condition, court, subject matter and intrinsic beauty of the painting. Not long ago the former Maharajah of Bikaner unloaded much of his private collection, and the paintings fetched from $750 to $20,000 and more. Portraits of Mughal emperors, usually at least 300 years old, are among the most valuable miniatures, sometimes selling for as much as $25,000 to $50,000 each.

For those who would like to browse through a number of good coffee table books, pay a visit to the bookstores in any of the aforementioned museums.—**Pranay Gupte**

The eyes have it

Some important questions have been popping up on the eye front recently:

Is your computer zapping or blinding you? Despite scare headlines about radiation risks, using your computer exposes you to no more radiation than is already emitted into the atmosphere from cosmic rays, according to the American Academy of Ophthalmology. Case closed. Reports of a higher incidence of miscarriages persist, but there is no evidence to support the theory that the miscarriages are caused by radiation from video display terminal (VDT) screens.

What about eyestrain and other problems linked to computer use? Such hazards result not from the terminals themselves but mainly from poor lighting, close viewing and intense concentration. "Any work that requires close viewing over long periods of time will cause some eyestrain," says Dr. Mahfouz Zaki, director of the division of public health for New York State's Suffolk County, which recently enacted controversial legislation mandating rest breaks and proper environments for many VDT users. (Note: With companies employing large numbers of VDT operators threatening to leave Suffolk and a local business association suing the county over the law, the fight is not over by a long shot.)

Rudimentary care can be taken to minimize eyestrain from VDT use, [illegible] experts. Sitting at the proper [illegible] distance from your termi[illegible] reducing glare from the light in [illegible] and using the right glasses [illegible] can reduce the chance of [illegible] associated with VDTs. [illegible] if you are farsighted, character[illegible] on the screen may look blurr[illegible] are nearsighted but [illegible] degree of im-

Laura Cornell

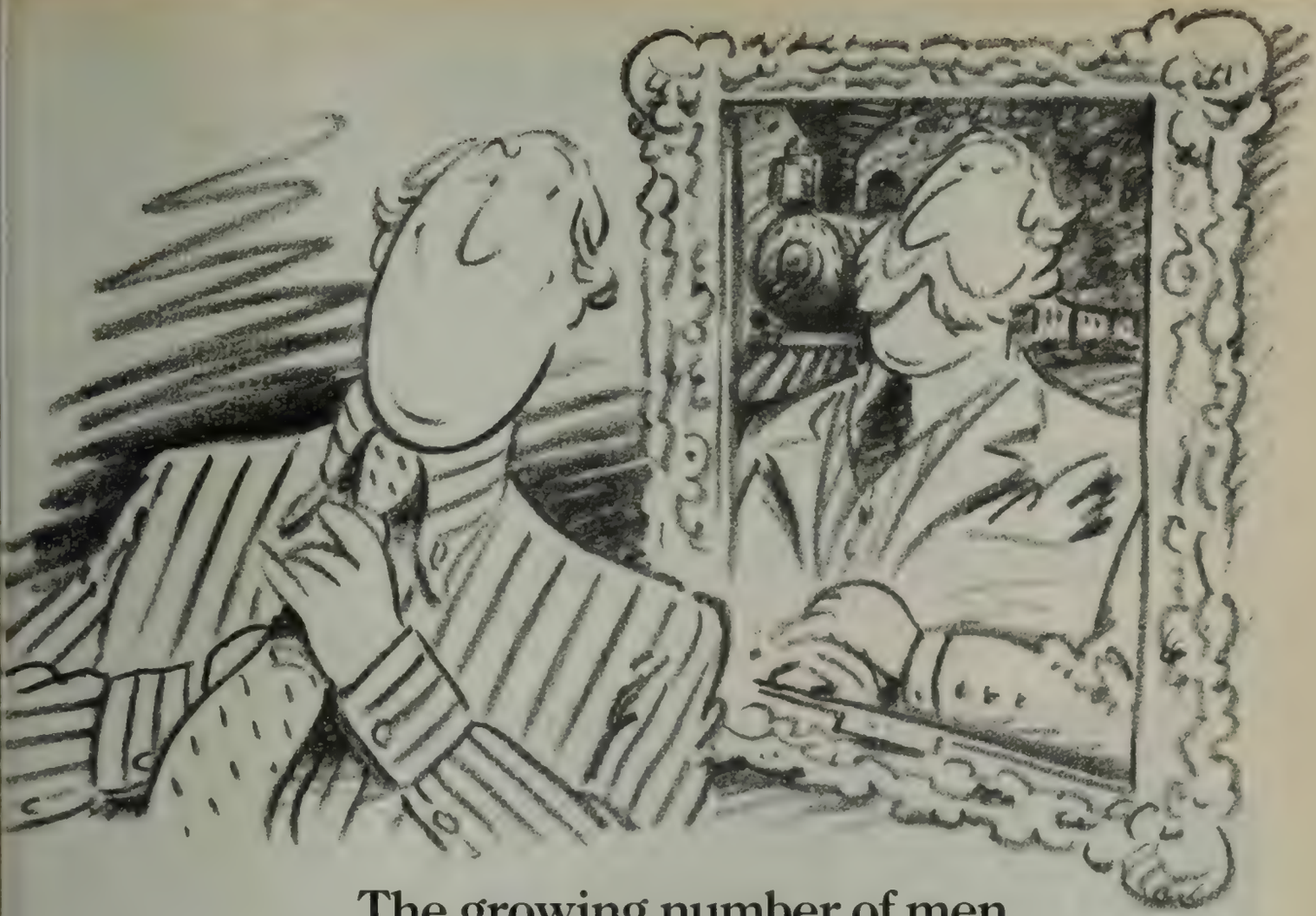
pairment in each eye, you may have difficulty focusing on the screen clearly, according to Dr. Lowell Glatt, a New York City optometrist and a member of the American Optometric Association's task force on environmental and occupational vision. But the cure is as plain as the nose on your face: If you use a VDT, have an eye exam at least once a year to make sure that your eyes can center and focus on your screen clearly. Difficulty in seeing your screen or pain in your eyes may indicate a need for eye exercises to strengthen eye muscles. And Dr. Glatt recommends measuring the distance you sit from your terminal before your eye exam, so your doctor can tell if you are sitting too close or too far away. (Adequate viewing is 23 to 26 inches from the screen.)

The American Optometric Association publishes a free pamphlet, "VDT User's Guide to Better Vision." Send a stamped, self-addressed envelope requesting it to the Communications Center, American Optometric Association, 243 North Lindbergh Boulevard, St. Louis, Mo. 63141.

Will over-the-counter glasses ruin your eyes? Nonsense, say the experts. Indeed, they're fine for the decreasing ability to focus that creeps up on all of us after about age 35. That common condition is improved by lenses that simply magnify things a bit (as reluctant agers often must sheepishly admit). If you find that the magnifying lenses, which should cost $10 to $15, don't do the trick, the lenses won't have done your eyes any harm, either. See your optometrist or ophthalmologist for a prescription for reading glasses. (Forty-nine states permit mass-produced glasses to be sold over-the-counter in retail stores. New York is the hold-out.)

Are soft contact lenses dangerous? If you wear soft contact lenses, you know you must clean them daily—or risk infection, irritation or even loss of vision in extreme cases. But now there are soft lenses that you wear for a while and then throw away. The extended-wear lenses, currently available from Vistakon, a division of Johnson & Johnson, are packaged in sets that last for three to six months. Bausch & Lomb is rolling them out nationwide in stages.

There is no need for cleaning the extended-wear lenses. Wearers insert them for a week or two at a time, then remove and replace them with a new set of sterile lenses. The cost is between $300 and $500 a year. While most conventional soft lenses cost about $100 a pair, wearers of the disposable lenses save on cleaning supplies and hassle. If you decide to go for disposable lenses, you must replace the lenses according to instructions or you still risk infection, experts warn.—**Francesca Lunzer**



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tter-day Oxford buttondowns have ided to be made of lighter weight terial. But not our Hyde Park. It still has beef of the original shirting. And in the loring, it retains those features the ditionalists have stubbornly insisted . The box pleat and locker loop on the ck. The extra generous cut that commodates thickening waistlines, thout betraying them. And the extra g tails that stay tucked in. Not to forget single-needle shoulders and sleeve heads, long barrel cuffs, 7-button front.

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Good management is attention to detail. A FORBES reporter gets an inside look at what that means at McDonald's.

Great hash browns, but watch those biscuits

David C[illegible] for McDonald's
No dent[illegible] bur[illegible] ease, or overstuffed bags.

By Dyan Machan

THE AVERAGE McDonald's restaurant grew by 15% over the last two years, while the average Burger King grew by less than 1%. Yet each outlet sells essentially the same product, in essentially the same way. Both dot the landscape. Both advertise on TV. So why is one immensely profitable and the other not?

On behalf of FORBES, I spent a day in southern Connecticut with a randomly selected McDonald's quality control man—in career terms, one of 300 McDonald's field consultants—whose job is to keep tabs on how the franchisees run their stores. Attention to detail is what drives him.

When I met with Dave Giarla, 43, on a recent Thursday in Norwalk, it was 8 a.m. and he had already visited 2 of the 15 McDonald's he covers. In the course of the day, we visited [illegible] more, ordered three breakfasts, two lunches and several snacks. Says he amidst this trencherman's gauntlet: "If something's broke you have to fix it right away, not in a few days."

Giarla is as American as, well, a Big Mac. He played football at the University of Massachusetts, studied restaurant management, loves the Olympics and always wears his seat belt. He loves his kids, his wife and, most of all, his $38,000 job. He says words like "correctomundo" and "outstanding" all the time; he's a very positive guy.

Giarla and I drive to our first McDonald's, several doors down from a Burger King in a working-class neighborhood. The area is grungy, but McDonald's is so clean and tidy it is almost blinding. As we get out of the car Giarla tells me this will be "a coffee shop visit"; he's going to walk in, order, then sit down and eyeball the place just as a customer would.

"Big Breakfast and a regular Diet Coke?" chirps the smiling teenager behind the counter. "Correctomundo," says Giarla.

There is nothing sneaky about his visits. The managers and employees all know him. But they can't always be sure when he'll show up, so the very expectation of his visits keeps them on their toes.

He sits down, inspects the food and frowns. He doesn't like the way his Big Breakfast biscuit is sitting on its plate. The biscuit looks fine to me but to Giarla it appears too small; it ought to be puffier, rounder.

He takes a bite out of his hash browns and heads for the kitchen.

"Great hash browns," he tells the teenager tending the deep fryer. "You

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Giarla and McDonald's crew member in the kitchen
Big Breakfast and a Diet Coke? Correctomundo!

Careers

should get a raise."

Passing by some crates, he checks the dates stamped on hamburger bun wrappers, then goes to the refrigerator and checks dates on a box of sliced cucumbers, cheese and a bag of milkshake mix. None is past its expiration date, and that makes Giarla happy.

Behind him some of the kitchen crew are making Egg McMuffins, and Giarla joins in. The best way to spread enthusiasm is to dig in and do some jobs alongside the crew, he tells me later. "These are going to be terrific," he announces.

Before we leave, Giarla spends an extra minute with the manager discussing the small-biscuit issue, which to Giarla "is not a minor problem at all." Giarla's hypothesis that the dough has been kneaded too much, so he recommends that the biscuit maker [illegible] a McDonald's videotape, which every franchise must keep at [illegible] the premises. The videotape [illegible] instructions for making biscuits and other items. Then [illegible] leave [illegible] next store.

Back in the car, Giarla explains that he tries hard to build good rapport with staff and managers throughout his territory. As a headquarters man visiting franchisees, Giarla can technically report only on what he observes. But in practical terms he has real clout. Two brothers, Ernest and Christian Trefz, own 43 stores in New York and Connecticut. They are one of the largest McDonald's franchise operations in the U.S., but even these multimillionaires must meet company standards—or else. A McDonald's that's not operated up to snuff for cleanliness and courtesy can have its franchise yanked—and Giarla can start the process.

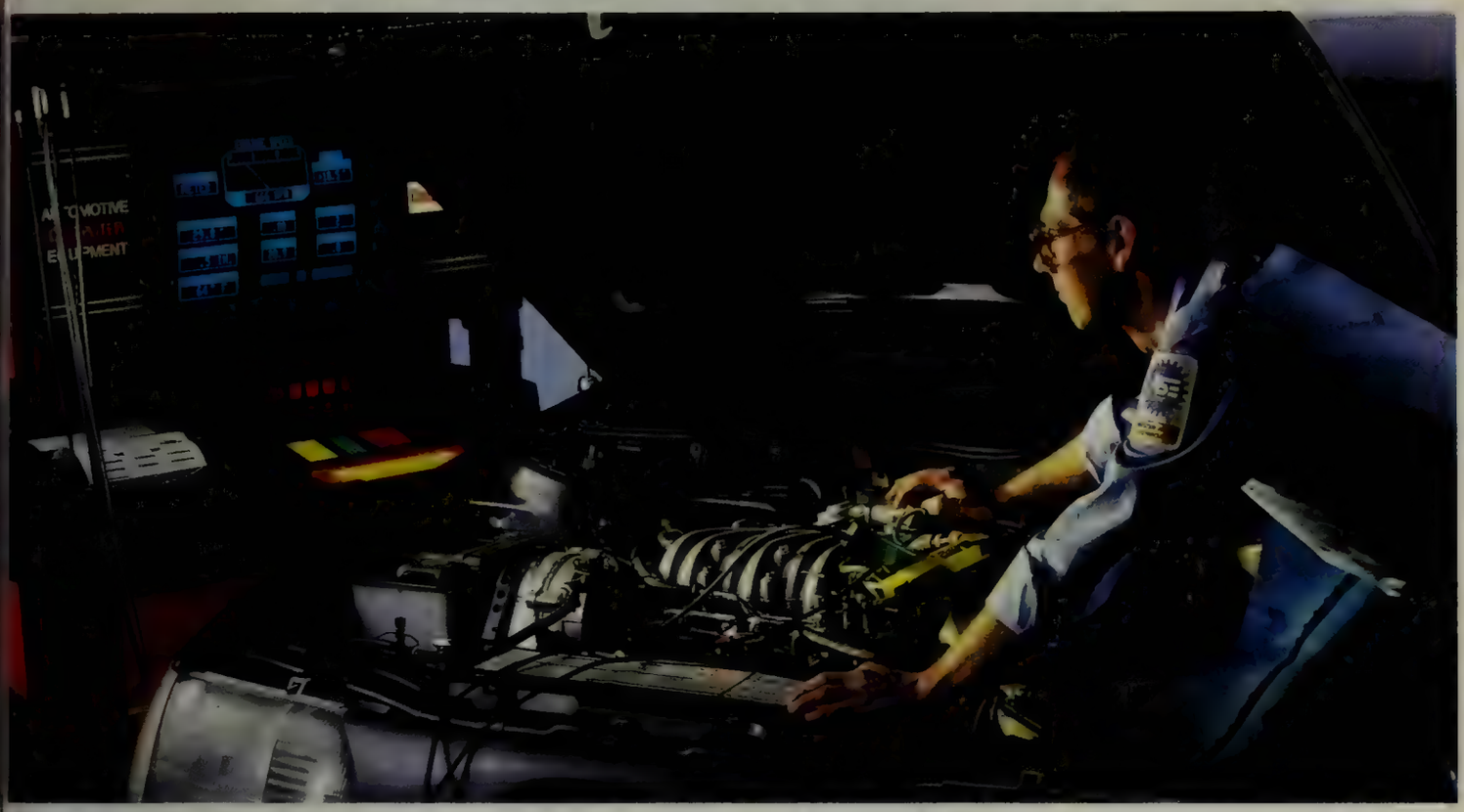
Our next stop is a McDonald's in the neighboring town of Darien, an affluent bedroom community of quaint shops and litter-free sidewalks. Yet the store itself looks identical to the one we just left, right down to the smiling, chirpy youngsters behind the counter. This store has recently undergone the McDonald's version of an IRS full net worth audit—a two-day probing of every detail of its operations, from the temperature of the grills and fat fryers to the fingernails of the employees.

The store, which passed with flying colors, has been newly redecorated in pink and green pastels. Says Giarla "God, I love the way this looks." He greets the manager and the crew and orders another breakfast, this time bacon, egg and cheese biscuit. Once again, the biscuit proves a disappointment; it slopes a few degrees to one side. He doesn't take a bite. He picks up a hash brown and nibbles one end. "I've probably gained and lost 40 pounds since I started working here," he tells me. That was eight years ago when he started working for McDonald's. Later, he attended McDonald's Hamburger University in Oak Brook, Ill. Of the 65 billion or more hamburgers sold by the chain over the years he's undoubtedly eaten thousands.

Not lingering over his food, Giarla heads for the kitchen. "Outstanding hash browns," he tells the crew. We go downstairs to make sure the storage area is tidy, and that all the bottom lids of cartons have been cut off and discarded to give the room a neat appearance. A few cartons still have lids. "You'll take care of those boxes, right?" he tells the manager.

It's just about noon by now, and Giarla offers to help at the drive-through window, presenting the food and saying things like, "Here's your

Dealer Service:



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world famous Big Mac" and "Here's your delicious soda." When the pace starts to drag he sings Beach Boys songs like "Help Me, Rhonda."

After a while a man in a Pontiac pulls up and orders a hamburger for his dog. That makes Giarla happy—for the store, for the man and for the dog. Next a customer pulls up and orders so much food that it scarcely fits in a single bag. The helper behind Giarla crams it all in anyway and hands it over. When Giarla frowns, the helper explains that it's okay because nothing got crushed. But Giarla explains that it's not okay; McDonald's doesn't go for bag stuffing.

Giarla consuming lunch on the run
Over the years, 400 pounds lost and gained.

The next McDonald's is in nearby Stamford. It's a two-story structure with a glass facade in a neighborhood of muffler shops and dry-cleaning stores. Once again, the McDonald's is the neighborhood jewel. We order lunch, but before I can bite into my cheeseburger Giarla snatches it from me and dashes into the kichen. The bun, it seems, is dented. In a minute he brings back a new, undented one and we sit down for lunch.

The store manager joins us and we engage in a thorough discussion of how the bun might have got dented in the first place. The store manager looks contrite as Giarla at last concludes that kichen helpers have been wrapping the burgers too snugly. Later Giarla's roving eye spots a stained tile in the ceiling, and we talk for a while about replacing it.

Next stop on the tour is a McDonald's in the Riverside section of elegant Greenwich. The store's manager is nervous as we walk into his storage room, and with good reason. Cardboard boxes are [illegible], and they still [illegible] ranging from [illegible] roll [illegible] looks [illegible] to take [illegible] locked dee[illegible] the manager [illegible] him. "Ah, come [illegible] me slide on [illegible] pleads. Giarla [illegible] him and asks him [illegible] open it up. The ma[illegible] won't do it. Giarla drops the subject, but on our way out he says to me, "He'll be hearing about this tomorrow morning."

Our final stop of the day is a McDonald's on the eastbound side of the Connecticut Turnpike, Interstate 95, in Darien. For years the place had been an almost unimaginably filthy Howard Johnson's, before being converted in 1985 to a McDonald's. Today it is one of the busiest McDonald's in America, in July setting an alltime monthly domestic record of $604,000 in sales.

The restaurant itself is enormous, almost like an amphitheater in size. Maybe 100 people are inside as we enter, some standing, some sitting, some waiting in lines. Roving over all that humanity, Giarla's eye instantly zeroes in on a problem: a woman with a precariously perched, 6-inch-high ice cream cone. McDonald's cones are supposed to be piled a regulation 3 inches high, not 6. "Well, they're not making money on that one," says Giarla.

Once at the counter Giarla buys a large chocolate chip cookie and some popcorn. He pronounces the cookie and the popcorn "outstanding," and says so to the manager. Everyone smiles. Then the manager darts off and starts scolding some dining room workers who had been standing around chatting instead of cleaning up.

No doubt, there was some showbusiness in all this: The ideal employee showing off for a reporter. But Giarla clearly means business, and the store managers know he will peer into the nooks and crannies of their operations.

And Pillsbury's Burger King? We wanted to interview someone similar at Burger King, but their public relations people stalled. Then they produced a man in charge of quality control at some company-owned Burger Kings in New Jersey.

Why company owned? Burger King franchises, the spokesman explained, may not show the operation at its best: "Franchisees have vast authority to run things differently. That's kind of like saying that as long as you pay us franchise fees, we're not going to make too much of a fuss. McDonald's has a different attitude: If you sport McDonald's arches, whether the store is company owned or owned by a franchisee, you maintain the same high—fussy, if you will—standards.

Customers gathering beneath the arches
Always a jewel in the neighborhood.

We told Burger King to forget it. We didn't want to visit a hamburger version of a Potemkin village. From Burger King's admission that franchisees weren't held to companywide standards, we already knew why one company was so profitable and the other a chronic loser. ■

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Faces
Behind the Figures

Edited by Robert T. Grieves

Point man

While some other Americans brood about all those Japanese, Europeans and Canadians buying up U.S. companies, here's a canny observer who thinks those capital flows are on the verge of changing. Says Judson P. Reis, who recently became the first Yank to head up Kleinwort Benson's U.S. investment bank: "My sense is that the present situation will change, particularly as American firms focus more directly on 1992 and what that means for the Common Market."

In 1992 the ten Common Market nations of Western Europe officially become a unified market of 323 million people, unencumbered by national economic boundaries. Formidable problems must be resolved between now and then. But even so, Reis thinks the new opportunities created by the change will make European firms far more attractive as takeover targets for Americans.

All of which should be good news for Kleinwort Benson Inc., the American subsidiary of $15 billion (assets) parent Kleinwort Benson Ltd., the second-largest British merchant bank. Reis' assignment: to ferret out and help U.S. firms looking to invest in British and continental companies—a task that in the 12 months ended in June brought his firm $1.9 billion in transactions.

Reis, 46, joined Kleinwort in June after spending 22 years at Morgan Stanley, most of them as a managing director. Between jobs he took time off to teach finance at the University of Virginia's Colgate Darden Graduate Business School. So why join a British firm? "This is a chance to run my own show," he says, "within the context of a major global concern."

What can Kleinwort Benson offer U.S. companies looking to acquire European firms? "We've lately been taking a disciplined look, industry by industry, at what 1992 will mean," says Reis. "This puts us in a strong position to help U.S. firms."—R.T.G.

Jo[illegible] of Kleinwort Benson
Ta[illegible]plined look at what 1992 means.

Alan Siegel of Siegel & Gale
Making gut-wrenching changes.

Alex Quesada/Matrix

Rewrite man

During the Carter Administration Alan Siegel, chairman of the communications and design firm Siegel & Gale, got a lot of press for helping lead the fight to write federal documents in plain English. Now Siegel's firm has completed a new and almost as daunting task: overhauling the monthly account statements of Shearson Lehman Hutton's $3-million-plus retail brokerage clients. Shearson plans to promote the streamlined documents in a media blitz during the Seoul Olympics.

"Anytime you redesign documents for a company it's a gut-wrenching change," says Siegel. "Some companies accept it better than others. Merrill Lynch doesn't want to change anything."

Siegel, 50, was born in the Bronx, in the shadow of Yankee Stadium (his firm designed the major league baseball logo), and graduated from Cornell in 1960 with a bachelor's degree in industrial labor relations. He started Siegel & Gale nine years later as a corporate logo designer, broadening out into the overhauling of all corporate documents in the 1970s.

Saatchi & Saatchi bought the firm four years ago, when Siegel & Gale's revenues were $6 million annually. Last year gross hit $14 million, and Siegel says it'll rise to $20 million this year. "Mergers and acquisitions, corporate restructuring and the influx of foreign firms in this country are going to give a tremendous boost to our business," he says. "In five years we'll be clearing $40 million annually."

Does he have any long-term goals? d like to redesign the IRS tax ms," he says. "I think that's the atest public service this company uld perform."—**R.T.G.**

d MacDonald's cash flow

Despite the costliest drought in U.S. history, farm income, which a record $58 billion last year, could as well or better this year. How me? Thank higher prices, says an Kleckner, president of the 3.6-llion-member American Farm Bu-au Federation, which is the largest d one of the most powerful farmer bbying groups in the country. This ar prices are going to be higher be-use farm products will be scarcer. , reasons Kleckner, "higher crop ices should push net cash income gher."

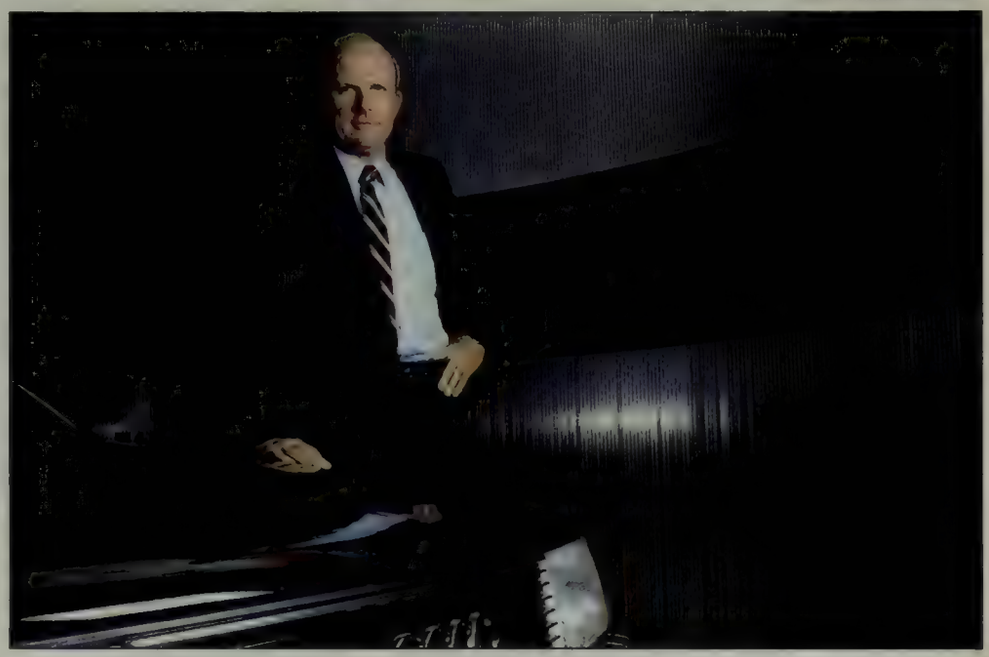
Government subsidies, as a result, e declining—from around $22 bil-n in 1987 (about 40% of farm in-me last year) down to perhaps only 7 billion this year. The $4 billion in ought aid that was just passed by ongress will actually be part of the bsidies, Kleckner reminds, but will targeted specifically at drought-hit milies.

Farm income trends by their very nature are cyclical, and, Kleckner cautions, the good times may not last. Why? Smaller farm subsidies next year and less produce for farmers to sell from this year's drought-damaged crops could result in declining farm income in the year ahead.—**R.T.G.**

ean Kleckner of the American Farm Bureau Federation
asy come, easy go.

Richard Mugg, the boss of U.S. Audi
There's nothing wrong that more sales won't fix.

Eric Smith Gamma-Liaison



Hot seat

Since January Richard Mugg has been boss of U.S. operations for Audi, the German carmaker owned by Volkswagen. The job is no sinecure. Some 39 million viewers saw a segment about alleged sudden acceleration by Audis on CBS' *60 Minutes* in November 1986. Audi sales collapsed, from 75,000 in 1985 to an estimated 23,000 this year. Maybe $1 billion in business annually has been lost to the company, and Mugg is the fourth boss at American Audi since the program was aired.

Mugg says he'll have sales back to 50,000 annually in three years. What's the basis of Mugg's optimism? "There's nothing wrong with the car," he says, and he thinks the TV program was terribly unfair. He's backing up that assertion with a just-introduced sales campaign that includes possibly the broadest warranty coverage ever offered on a car: a no-charge maintenance plan for three years or 50,000 miles, covering all defect repairs, scheduled servicing, oil changes, wheel alignments and the like, plus 24-hour roadside assistance.

Mugg, 56, a former Marine helicopter pilot and a talented tennis player, joined Volkswagen of America in 1958 as a salesman, sold trucks door-to-door, and went on to hold top positions in advertising and marketing before he was tapped to head up the operation. It isn't a job everyone would covet, but then that fancy new warranty just might help him perform a miracle and get Audi moving again.—**Jerry Flint**

Lines of Communication

Estimates are that 85,000 miles of new trunk fiber optic telecommunications cable will be laid in the United States by mid 1988. That's a lot of trenching.

To cut through thousands of miles of earth and rock, many manufacturers rely on tough carbide bits made by Fansteel's VR/Wesson, Lexington as original equipment on their trenching machines.

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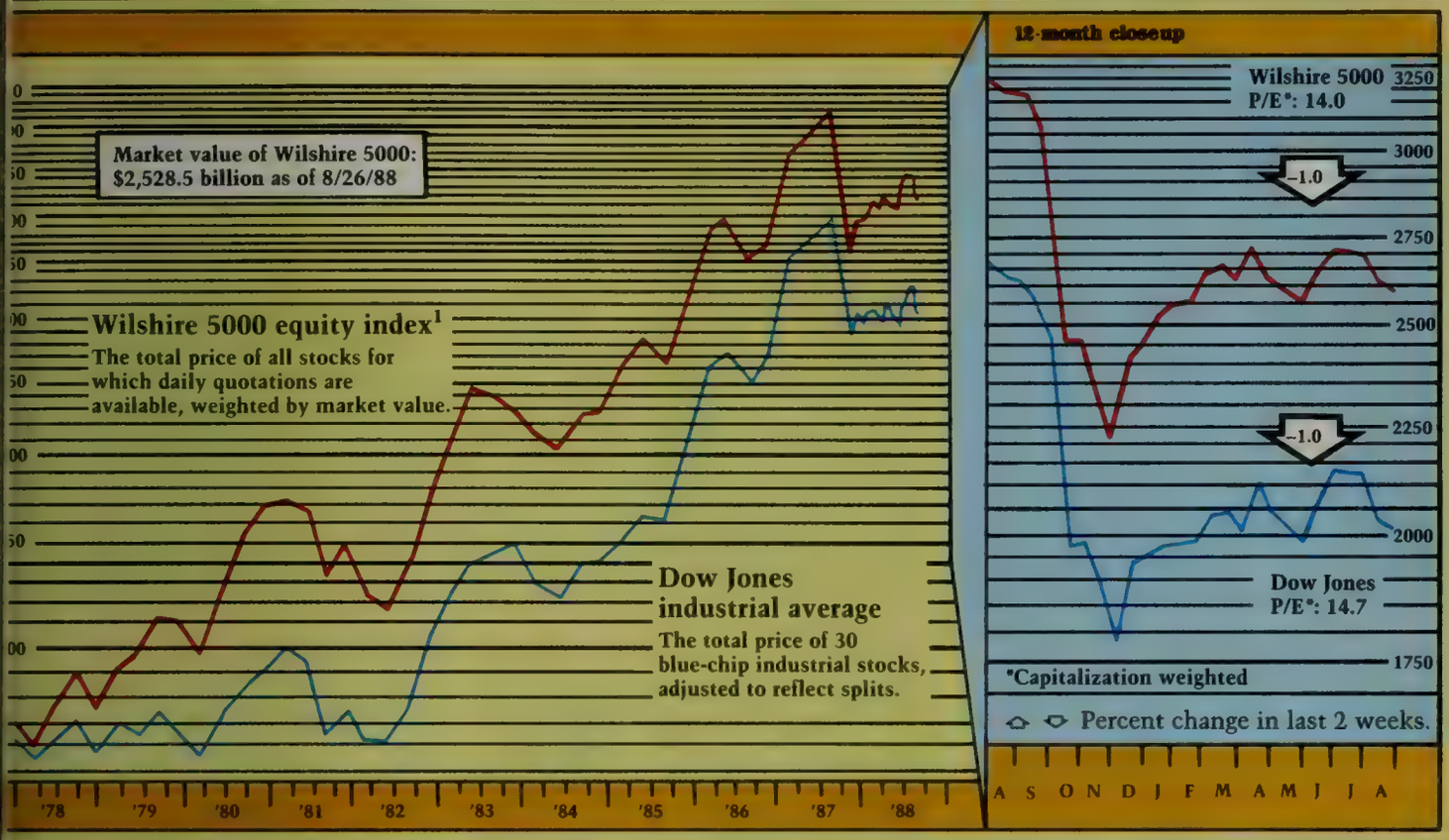
The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



ould you get out of the market? The recent low level of ading volume and the slow crumbling of share prices n't all be blamed on summer vacations. Volume on Aug. of only 89 million shares was the lowest of the past 12 onths, almost as low as the day after last Thanksgiving, nich is traditionally one of the slowest trading days of e year. An eerie parallel has developed between today's arket and that of the Depression market. After 1929's ack Monday, and some feeble comeback attempts, prices drifted lower on weak trading volume. Monthly volume of 39.9 million shares in August 1930 was the lowest in three years. Then, in the last four months of 1930, the Dow took a 31.5% drubbing.

But you can find optimists. Laszlo Birinyi, a market analyst with Salomon Brothers, for example, expects people to get off the sidelines in due course. "Once the economic and political uncertainties become clearer," he says, "the market will move up to a new recovery high."

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–4.0	–4.1	–5.2	–4.0	–4.0	–3.3
in last 52 weeks	–19.5	–20.3	–23.6	–19.5	–18.3	–17.4

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 23	under 9	over 4.7%	none	high	low	over $35	under $4
in last 4 weeks	–3.6	–0.7	–3.1	0.3	–3.3	–2.3	–0.7	–1.9	–1.9	–2.2	–3.5	–1.8
in last 52 weeks	–15.4	13.7	13.3	2.7	–11.1	–4.9	–1.4	16.1	12.0	–1.9	–11.5	8.3

Vilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's owth image, determined by Wilshire Associates.

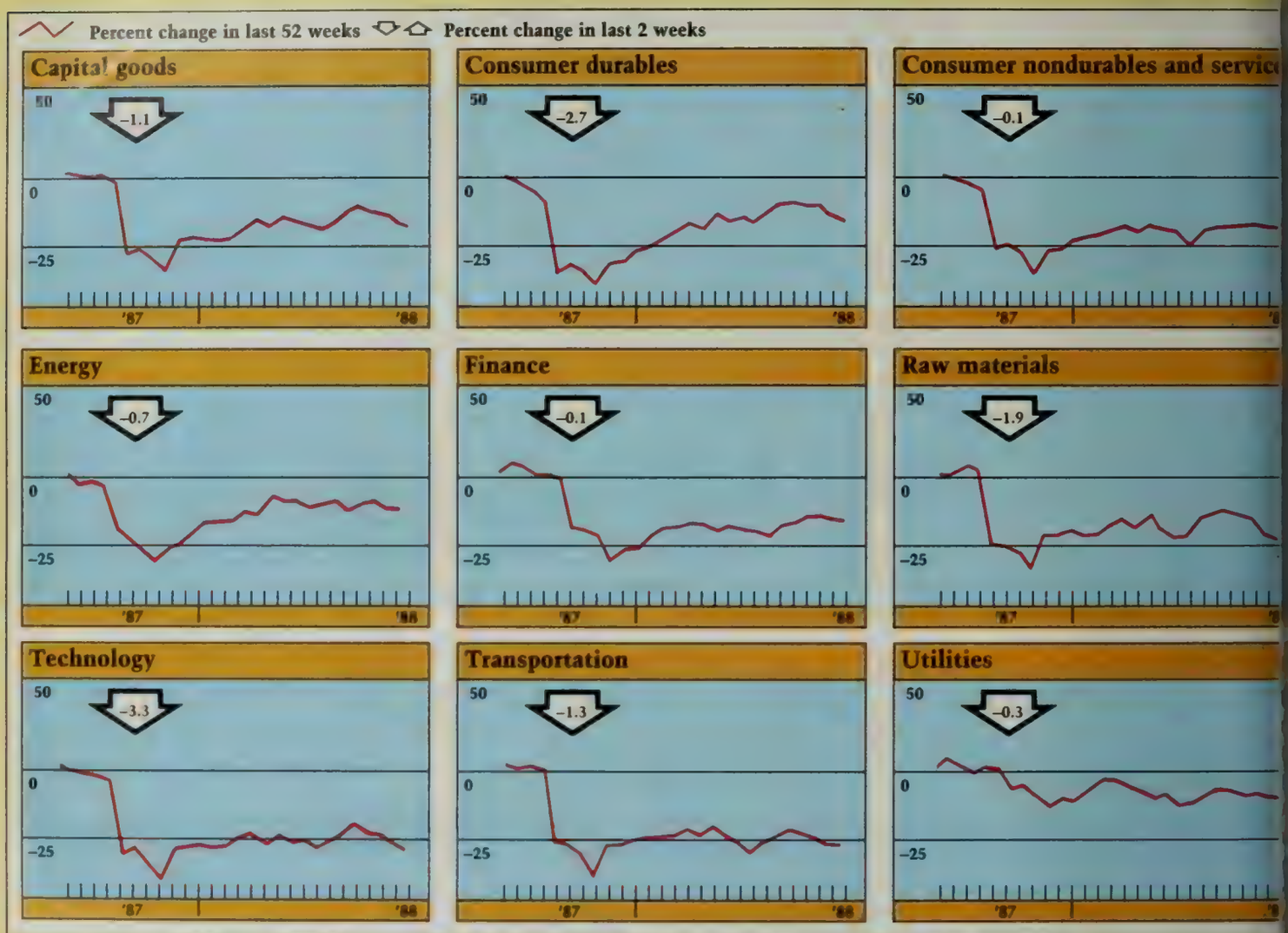
ote: All data for periods ending 8/26/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Cheaper technology. The biggest casualty in the past two weeks was the technology sector, where a 3.3% loss leaves the group in the back of the doghouse. Bull market leaders such as Digital, Lotus and Seagate Technology are now at 52-week lows. IBM, trading at a modest 112, is only 21 above its 1973 high. In 1973 IBM earned $2.70 per share and traded at a hefty six times book; today the stock is less than two times book. Analyst John Jones of Mor gomery Securities in San Francisco is looking for IBM earn $9.87 this year and $11.85 next year. He rates t stock a buy.

The big winners? U.S. Shoe gained 40% on news o possible sale or restructuring of the company. Also up w Wickes, up 54% for the same reason.



What the Analysts Think

The forecast for heavy industry improved in the last two weeks, as analysts raised their 1988 estimate for consumer durables. Lamson & Sessions, which makes thermoplastic pipe and automotive parts, saw its 1988 estimat rise over 19%. B.F. Goodrich, Champion Spark Plug an General Motors show slightly higher estimates.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
Last 12 months	$2.78	13.3
1988 estimates	3.59	10.3
1989 estimates	3.96	9.3

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estima in 2 weeks	% change in 1988 estima in 4 week
1	Consumer durables	$4.65	11.3	1.06%	2.57%
2	Raw materials	3.18	9.4	0.85	2.89
3	Energy	3.09	12.0	0.69	1.33
4	Capital goods	2.65	14.0	0.01	0.51
5	Technology	2.92	11.1	–0.04	0.06
6	Utilities	2.40	9.7	–0.08	–0.15
7	Consumer nondurables	2.45	12.9	–0.23	–0.49
8	Transportation	2.34	10.8	–0.58	0.19
9	Finance	3.44	8.3	–0.99	–1.39

Ea[illegible] capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brok Est[illegible] a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note [illegible] ending 8/26/88. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

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Statistical Spotlight

The cash flow play in steel stocks is over. But there are other ways to profit from a resurging industry that was given up for dead almost two years ago.

Steel numbers

By Jack Willoughby

WHAT A COMEBACK: A little over a year ago Bethlehem Steel, the country's third-largest steel producer, was trading at 4⅝. Now it's at 20¾. And still it looks cheap, with cash flow per share for 1988 estimated at $10.50 by *Value Line*.

Chriss Street, a manager in the reorganized securities group of Bateman Eichler, Hill Richards in Los Angeles, has a word of advice for people about to buy steel stocks on the strength of their cash flow: Don't. There are some buys in this industry, he says, but they can't be spotted with a simple price-to-cash-flow ratio, and Bethlehem Steel isn't one of them.

In almost any other industry, a stock at two times cash flow would be takeover bait. If a stock is at two times cash flow, an acquirer could, in theory, buy the entire company and recoup its outlay in two years, assuming it reinvested nothing in plant and equipment.

But Bessie's strong recovery hides severe problems, says Street. They have to do with pension obligations. The company's unfunded liability—the amount by which its pension fund falls short of the money that should have been set aside from past payrolls—is a staggering $1.3 billion, or $[illegible] a share. Put that back onto Bessie's balance sheet with the other liabilities and the net worth (book value) of the company is wiped out.

A pension liability is more than a [illegible] enemy. It crimps the company's operations. Bethlehem might want to close old, inefficient plants it can't afford to. That's because past liabilities are eating up current profits. The liabilities only become larger if plants shut down, and with capacity down, those costs are loaded onto fewer tons of steel. Says Street: "People have assumed, incorrectly, that it's happy days again. But if demand falls back [further] to more realistic levels, liabilities like big unfunded pensions will stand pretty tall."

To be sure, the U.S. steel business has come a long way in the past five years. Steelworkers are more than a third more productive, producing a ton in five hours of work rather than eight. The capacity cutback, coupled with a declining dollar for most of the past three years that has made foreign steel more expensive, enables steelmakers to raise prices. In July cold rolled sheet went up as much as 5% at several producers, to $578 a ton.

This good fortune has landed with particular impact on the least efficient companies. Salomon Brothers says that Bethlehem's operating profit (profit before taxes and interest, an after depreciation) was about $63 ton in the second quarter, up from $1 the same period last year. USX, whic was in better shape to begin with, sa a less dramatic gain, from $31 to $70 ton. Says Street: "In the early stages a commodity rebound, the most ine ficient producer gets the bigge bang." Thus investors must be carefu not to project earnings-per-sha growth into future years.

What will set successful steel com panies apart will be their ability t upgrade and shift production as th boom starts to slow. Bethlehem wi be hamstrung by its pension drag. S will Armco. But two strong comp nies without unfunded pension liabi ities have the financial elbowroom t modernize and/or change their pro uct mix: Inland Steel and US They're both trading at three time cash flow, more than Bethlehem. Bu they're both cheaper than Bethleher and Armco in relation to book valu at least if book value is adjuste downward for the pension debt.

Street, whose specialty at Batema is poring over bankruptcy court fi ings in search of special situation has another buy recommendatio bonds of bankrupt LTV. "The LT that will emerge is drastically diffe ent from the one that was put int bankruptcy in July 1986. But th bonds are still trading for those 198 prices," he says. The Chapter 11 filin enabled the company to dump 35% its capacity and 50% of its worker After some haggling with the feder agency that insures pensions, LT may be able to walk away from 25 of its $2.9 billion unfunded liabilit The price of this reorganization wi be a sharp haircut for the stockhol ers. Bondholders, Street says, wi wind up owning most of the equity i the company. Street recommends th LTV Corp. 5s of 1988, recently tradin at 31, and Republic Steel's 8.9s 1995 at 31¼. ■

The good and the ugly

In judging a steel company, look beyond cash flow to pension debts. USX and Inland are overfunded, Armco and Bethlehem badly behind.

Company		Cash flow[1]	Pension surplus or liability	Book value[2]	Pension contribution[1]	Recent price
Inland	Buy	$10.50	$9.35[3]	$36	$0	35⅜
USX	Buy	8.00	3.09[3]	18	0	27¼
Armco	Sell	2.60	–4.54	8	0.82	9⅞
Bethlehem Steel[4]	Sell	10.50	–17.00	15	2.29	20¾

All data per share. [1]1988 estimate, net income plus depreciation. [2]Dec. 31, 1987. [3]Estimated Dec. 31, 1988 pension surplus, including excess pension fund earnings for 1988. [4]Reflects May share offering.

Sources: Bateman Eichler, Hill Richards Inc., Value Line.

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The Forbes/TUCS Institutional Portfolio Report

Edited by Steve Kichen

MARKET TIMERS are back, but they aren't doing terribly well, at least for institutional investors.

Timing—switching between stocks and either cash or bonds—was a popular theme in the 1970s. The idea was to participate in bull markets while deftly sidestepping bear markets by switching out at the right moment. After falling into disrepute for a while the strategy has enjoyed a resurgence. Renamed "asset allocation," it has a strong following again among pension sponsors. For the retail trade there are a dozen or so mutual funds that aim to asset-allocate their way around market crashes.

The mutual funds are for the most part too new to judge, but data are in on the pension managers. They come to us from the Trust Universe Comparison Service, managed by Santa Monica, Calif.-based Wilshire Associates. TUCS monitors 4,500 pension accounts, which hold 20% of the country's $2 trillion in corporate and government pension assets.

TUCS finds that, over the past two years, the average market timer delivered a 6.5%-per-year return. That isn't terrible, but it lags behind three of the five other strategies TUCS follows *(see table at lower left)*. This period, however, should have been an ideal environment for a timer, what with a powerful bull market followed by a big crash. Someone who caught the up move and then switched out before the crash would have soundly beaten any of the buy-and-hold strategies.

If we include all six strategies, the average institutional equity manager performed in line with the market in the most recent quarter, with a 6.4% total return (dividends plus capital gains or losses). The Wilshire index of 6,010 stocks posted a similar return of 6.6%.

Common stocks had the best returns during the quarter and strongly outperformed both fixed income and cash. But this only helped to close the 12-month gap created by last October's debacle. Over the last 52 weeks fixed-income accounts enjoyed a median total return of 7.6%, while equity investments are off 5.9%.

Pension managers have been adding slightly to their equity holdings while pulling out of fixed income *(see "Segment performance" at right)*. But James D. Awad of BMI Capital says he's not looking to pension funds to prop up the equity market. "Foreigners, public funds, individuals and corporations—any one of these alone will trigger the next up move," he says.

How different managers performed

Manager style	Total return[3] recent quarter	12 months	24 months[4]
Diversified	5.7%	–4.8%	7.8%
Growth	5.8	–6.9	5.9
Growth—emerging	7.0	–2.6	5.6
Market timer	5.1	–2.7	6.5
Value [illegible]	5.6	–5.2	6.6
Value	6.7	3.0	8.7

Where the institutions put their money

Segment	Portfolio weighting: most recent quarter	previous quarter
Equity	60.1%	57.2%
Fixed income	28.9	30.9
Cash and equivalents	10.4	10.8
Convertibles	0.1	0.7
Other[1]	0.5	0.4

Equity portfolio characteristics

	Institutional portfolios	Wilshire 5000
Price/earnings ratio	15.1	14.9
Dividend yield	3.2%	3.3%
Beta[2]	1.05	1.06
Price/sales ratio	1.33	1.40
Price/book ratio	2.87	2.30

Segment performance and cash flows

Segment	Most recent quarter: median total return	shift in institutional holdings	Latest 12 months: median total return	shift in institutional holdings
Equity	6.4%	0.6%	–5.9%	–2.0%
Fixed income	1.1	–2.8	7.6	–7.4
Cash equiv	1.7	–4.5	7.2	–15.3
Convertibles	4.6	–6.7	–0.5	–1.1
Other[1]	1.6	0.0	6.4	–5.2
Total	4.7	–0.8	1.8	–4.7

Position changes: These securities had the greatest relative change in holdings over the last quarter

Security	Increase in holdings	Total quarter return	Security	Decrease in holdings	Total quarter return
General Motors	2.6%	14.2%	Amoco	–2.7%	–0.3
Ford Motor	2.2	25.8	Baxter Intl	–2.3	–10.9
Federal Nat Mtg	2.1	36.1	American Brands	–1.9	11.0
Alcoa	1.8	23.2	BellSouth	–1.8	12.7
Digital Equip	1.7	9.9	Am Home Prods	–1.8	–2.6
Cincinnati Bell	1.6	26.7	Bell Atlantic	–1.5	10.2
Cigna	1.5	1.9	Pfizer	–1.4	–5.4
Warner Comm	1.5	19.8	AT&T	–1.4	0.2
First Chicago	1.5	33.9	SmithKline	–1.2	–15.5
Syntex	1.4	23.0	Philip Morris	–1.2	–5.4

[illegible] venture capital, guaranteed insurance contracts. [2]A measure of risk. A stock with a beta of 1.00 tends to move up or down at the sa[illegible] [illegible] all forms of investments. [4]Figures for 24 months are annualized.
Note: [illegible] 30/88. Prepared by the Trust Universe Comparison Service (TUCS®), a service of Wilshire Associates, Santa Monica, Calif.

'here the institutions are—and aren't

Most overweighted relative to Wilshire 5000			Most underweighted relative to Wilshire 5000		
	% of			% of	
·curity	institutional universe	Wilshire 5000	Security	institutional universe	Wilshire 5000
·rd Motor	1.2%	0.8%	Exxon	1.3%	3.0%
pple Computer	0.5	0.2	Matsushita Elec ADR	0.0*	1.3
tel	0.5	0.1	Hitachi Ltd ADR	0.0*	1.1
aterpillar	0.6	0.2	British Petroleum ADR	0.1	1.2
lcoa	0.5	0.2	IBM	3.3	4.3
'arner Communications	0.5	0.2	AT&T	0.7	1.6
ilip Morris	1.3	1.0	General Electric	1.5	2.3
igital Equipment	1.0	0.8	Royal Dutch Petroleum	0.8	1.5
omputer Associates	0.2	0.0*	Glaxo Holdings ADR	0.0*	0.7
nocal	0.4	0.2	BellSouth	0.5	1.1

rd is number one with the institutions. With a 50% erweighting relative to its market capitalization in the lshire index, Ford tops the list of institutional darlings. rd has surpassed GM in profits the last two years and sed its dividend four times during this span.

Of the nine Wilshire sectors, raw materials lost the most weighting in the institutional portfolio in the June quarter. That sector, which includes Dow and Du Pont, has exhibited strong earnings momentum. But institutions are looking ahead to the next recession.

ector activity and top holdings

% of institutional portfolio: ■ most recent quarter ■ previous quarter

'apital goods	5.4%	6.2%	Consumer durables	4.8%	4.3%	Consumer nondurables	28.4%	28.9%
	total return			total return			total return	
'eneral Electric	9.6%		Ford Motor	25.8%		Philip Morris	–5.4%	
'aterpillar	8.9		General Motors	14.1		Merck	8.1	
Vestinghouse Electric	9.7		Chrysler	4.9		Wal-Mart Stores	9.0	
merson Electric	7.5		Goodyear Tire & Rubber	2.2		Coca-Cola	6.6	
'ooper Industries	0.8		Matsushita Elec ADR	–12.3		Squibb	–1.4	
nergy	9.3%	8.8%	Finance	12.3%	11.7%	Raw materials	14.1%	15.2%
	total return			total return			total return	
'xxon	9.4%		American Express	13.7%		Dow Chemical	12.3%	
Amoco	0.3		American Intl Group	8.8		El du Pont de Nemours	16.2	
Atlantic Richfield	–4.2		JP Morgan	18.1		Waste Management	2.1	
Royal Dutch Petroleum	–4.5		Citicorp	32.4		Monsanto	9.2	
Mobil	–0.4		Aetna Life & Cas	4.5		Alcoa	23.2	
Technology	16.5%	15.1%	Transportation	4.4%	4.1%	Utilities	4.8%	5.7%
	total return			total return			total return	
IBM	19.5%		Union Pacific	2.5%		AT&T	0.2%	
Digital Equipment	9.9		CSX	–10.1		Nynex	5.2	
Hewlett-Packard	–8.1		Norfolk Southern	8.1		BellSouth	12.7	
Apple Computer	15.8		Ryder Systems	–2.1		Southwestern Bell	11.2	
Boeing	27.4		Burlington Northern	3.8		Pacific Telesis	6.0	

*Exact figure is less than 0.05%.

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Lord Byron
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Catherine the Great
Claudius
Cleopatra
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Christopher Columbus
Adelle Davis
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John Dillinger
The Duke of Windsor
Isadora Duncan
Amelia Earhart
King Edward II
King Edward V
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Sigmund Freud
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Mata Hari
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Ivan the Terrible
Jesse Woodson James
Thomas Jefferson and John Adams
Casey Jones
Janis Joplin
Princess Grace (Kelly) of Monaco
Bruce Lee
Vivien Leigh
Carole Lombard
Huey Long
Jayne Mansfield
Senator Joseph McCarthy
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Be forewarned: The tax exemption on municipal debt is not a natural law. It is subject to whatever exceptions Congress and Internal Revenue impose.

POLITICS

By Ben Weberman

The municipal bond industry is a creature of politics. There is no immutable reason muni bonds have to be exempt from federal tax. Taxed like other borrowers, states and cities would have to compete in the capital markets against corporations, homeowners and the U.S. Treasury itself.

It should be no surprise that cracks appear periodically in the tax exemption that lies as the foundation under the municipal debt market. Astute bond buyers take politics into account before buying.

Here are just a few of the ways in which Congress or the Internal Revenue Service has chipped away at the exemption of late:

- As a result of the 1986 tax reform, insurance companies and other corporate investors are subject to a potential tax of 20% on a portion of their tax-exempt interest. This hurts issuers of munis, since it reduces demand without reducing supply.
- Bonds issued since Aug. 6, 1986 for housing, airports, student loans and industrial development are considered private-purpose bonds whose interest is subject to a tax of up to 21%. The tax applies if the individual has to pay "alternative minimum tax," which a lot of high-bracket taxpayers do.
- Since 1983, people receiving Social Security may pay a tax indirectly on all their municipal bond interest, since the muni interest is used in a complicated formula determining how much of the Social Security payment is taxable.
- The IRS will almost certainly decree some supposedly tax-exempt issues to be taxable, on the ground that the issuer had no legitimate purpose for the financing. Some $300 million of issues from the Guam Economic Development Authority could be affected. It isn't clear whether Guam, the underwriter (Matthews & Wright) or the bondholders will bear the tax.

Besides the Guam issue, an $80 million issue from the Territory of Northern Mariana Islands and some $400 million of housing bonds issued by small communities in Arizona may come under the same cloud. At least 56 such deals, aggregating $2.75 billion, are rumored to be under federal investigation.

- The Treasury, too, is preparing rules to take away the tax exemption on what wiseacres call "pyramid bonds"—bonds to finance the bridge after it is built, repaid out of general funds. Their nickname reflects the absurdity of issuing bonds today to recover the costs of building the Egyptian pyramids. The rules probably wouldn't apply retroactively to any issues now outstanding—probably.

For now it appears that most of the $730 billion of muni bonds outstanding will remain mostly exempt in the hands of most holders. But investors must, at a minimum, avoid exposure to issues whose interest may be retroactively declared taxable. Those bonds with the cleanest tax exemption—the state general obligation bonds, for instance—will be part of a shrinking universe of outstanding tax-exempts and should increase in value.

A basic principle of tax law is that most abrupt changes incorporate some sort of grandfathering. The law taxing the muni interest of banks and some insurers, for instance, exempted bonds they held at the time of the new law. They couldn't trade the old bonds, however, without losing the exemption.

Some erosion of the once sacrosanct muni exemption can be blamed on a Congress hungry for tax revenues. But the municipal bond industry is partly at fault. There have been abuses: city bonds that finance grocery stores, issues that finance no real projects but simply fatten lawyers' and dealmakers' wallets. Instead of pressuring those who abuse the tax exemption, underwriters and lawyers rail against Congress, the Internal Revenue Service or any other regulator attempting to curb excesses. These misdirected, but loud, complaints have a perverse effect. Regulators retaliate by turning tougher.

One crackdown might actually help the market by improving yields, although you would never know that from all the wailing on Wall Street. A bill will be introduced by Brian J. Donnelly (D–Mass.), a member of the House Ways & Means Committee, to limit overhead costs for all tax-exempt bonds to 1% of proceeds, down from the 2% ceiling now imposed only on private-purpose bonds. Significantly, the Donnelly proposal would apply the limit to all tax-exempt bonds rather than only to private-purpose bonds. More important, the bill would require disclosure of all issuance costs, including side payments to underwriters and distributors from such sources as tax revenues or corporate profits (in the case of private-purpose issues).

The 1% ceiling could make small issues—say $10 million—uneconomical for some underwriters, so many municipalities would have to join pools to raise new capital. But if the dealmakers have less to spend on lavish dinners and parties to obtain business, so be it. All these costs ultimately come out of the bond buyer's pocket. ■

Ben Weberman is a contributing editor of FORBES *magazine.*

Under scrutiny these stocks are anything but bargains, and may well prove dangerous to your portfolio's health.

CYCLICAL FEVER

By David Dreman

The major cyclicals are coming in with smashing earnings gains that make them appear to trade at giveaway prices. Dow Chemical at a P/E of eight times this year's earnings, and seven times next year's; Phelps Dodge at four; or Bethlehem Steel at five times 1988 earnings. So it goes.

My advice: Stay away.

How can a low-P/E advocate pass up these goodies? Very easily. Under scrutiny these stocks are anything but bargains and may be dangerous to your portfolio's health.

Why do I say this? Even the mildest contrarian has to be wary when all the news is super and the consensus is that it can only get better. That's the way it is with the cyclicals these days.

What both analysts and investors always forget is that periods of exploding cyclical earnings don't last forever. (If they did, the companies wouldn't be cyclical, would they?) Though the experts claim each cyclical boom, like every stock market bubble, is different, the outcome is depressingly predictable.

Ben Graham, in his classic *Securi*[illegible] v the problem of cyclical earnings 55 years back and presented a framework to evaluate them properly, called "normalized earnings," which is as effective today as it was back then. Investors, he noted, should average out the earnings of companies that have wildly fluctuating results. He suggested a proper benchmark would be annual earnings averaged over a ten-year period.

The table below uses this benchmark for a number of popular cyclicals for the last nine years and also includes the explosive 1988 estimates. Column three provides normalized or average earnings for this ten-year period, while column four provides the current P/E on the normalized earnings.

A glance at the table shows that these stocks are anything but bargains on the basis of normalized earnings. In fact, using Graham's methods, they have P/Es similar to many popular highfliers. Sure the researchers estimate Phelps Dodge will earn $8.82 this year (column one) and rate it as a strong buy, but Phelps on average earned $1.52 for the ten-year period, which includes the tremendous gain expected this year. (All 1988 estimates come from the IBES, which monitors the current estimates of the major brokerage research houses.) Phelp's dividend back in 1979 was $1.20 a share. Today, in spite of earnings going through the roof, the dividend is 80 cents. Not my kind of bargain.

Or take Bethlehem Steel, trading at four times 1988's estimate. How did it fare through the Ben Graham screen? To say poorly is kind. Bessie lost 75 cents annually, including booming 1988 results. It paid a $1.50 dividend back in 1979, compared with zip today.

Even Dow Chemical, one of the best-managed of the cyclicals, earned only $4.03 a share annually over the ten years, which puts its current P/E ratio at 21.6, higher than that of most growth stocks.

Finally, almost half of the companies in the table have shown net losses over the period of this test. Now, glance at the last two columns on dividends, which in every case are less or only slightly more than ten years ago, compared with a doubling of the average dividend of the S&P 500.

No, as the table makes clear, these are not bargains now. Rather, they are once-in-a-decade bloomers that are likely to fall apart when conditions change from ideal to normal. My advice is that if you own these stocks or companies like them, forget the huge forecasted earnings gains and take your profits now. If you don't own them, stay away. It's too late in the game. ■

[illegible] is managing director of [illegible] Management Inc., Investment [illegible] New York, and author of [illegible] Contrarian Investment Strategy.

Contrary wisdom

If something looks too good to be true, the adage goes, it probably is. That certainly applies to the cyclicals. If you are considering an investment in these issues, look carefully before you commit funds.

Company	1988 earnings*†	1988 P/E*	Average earnings† 1979-88	P/E 1979-88	1979 dividend†	1988 dividend†
Alcoa	$7.40	7.3	$3.73	14.5	$1.30	$1.40
Amax	3.24	7.4	–0.03	—	1.72	0.20
Bethlehem Steel	4.21	5.7	–0.75	—	1.50	nil
Dow Chemical	11.50	7.8	4.09	21.6	1.50	2.80
Inco	5.54	5.4	–0.21	—	0.50	0.80
Phelps Dodge	8.82	4.4	1.52	25.6	1.20	0.80
Reynolds Metal	6.15	8.5	2.76	18.8	1.00	0.80

*Estimated †Per share

'heir circuits overloaded by rapid :hange, investors have retreated to cash vhile adjusting portfolio approaches.

DOWNTIME FOR CHANGEOVER?

By Ann C. Brown

Vith the stock market still in after-hock as a result of last October's rash, confidence is further shaken, ıow that the Shining Hill Sheriff of ımerican Capitalism is riding into he Santa Barbara sunset—his star ıp for grabs between a feller inves-ors don't know and a feller they nay know too well. The fact that ıeither successor is likely to be able o effect legislation that could dra-natically alter the direction of the conomy anytime soon is beside the ıoint. The townsfolk are uneasy nd are likely to remain stock-shy or some time to come.

The prospect of a new Adminis-ration is only one of many changes nvestors have had to factor into heir thinking over the past several nonths. For example, the change of eadership at the Federal Reserve. Mr. Greenspan started out slowly ınd did little until the recent unex-ɔected hike in the discount rate. Very possibly he may not be as ;nugly pro-Republican as many ear-ier assumed. Could be the Fed does nean to try to nip inflation in the ɔudgets of consumers and corpora-ions alike. All of which might be ;ood for the stock and bond markets long term but is unlikely to start a security-buying frenzy over the next several months.

Another change has come about as a result of the Tax Reform Act, which did away with the preferential treatment of capital gains. The stock market was a strong beneficiary of this exception to the rule. Now that gains are on the same tax footing as other forms of income (like 12% to 14% bonds), stocks have encountered some serious competition for investment dollars. The low, nondividend-recapture and nontakeover-related volume on the New York Stock Exchange shows it. So does the surprising strength in the bond market in the face of indications that the inflation rate is increasing.

The changes in trading techniques and the coming of age of such investment vehicles as options and futures have scared away many investors. More than a few men and women feel they are not equipped to play in an investment game dominated by M.B.A.s with PCs working for IDS, MFS or other large institutions. The advantages the funds had over the individual at the time of the crash still exist for the most part, which should continue to keep the little guy on the lookout for more equal opportunity markets.

One change that has been a long time coming but has hit investor consciousness only recently is the growing internationalization and interdependence of financial markets. The volatility of the U.S. stock market is higher than ever before because of what happens in Japan, Germany, Australia, etc. Today giant pools of the world's capital dart in and out of equities, commodities, currencies and the like, looking to make the fastest buck. The new electronic systems have hastened the transmission of information and facilitate the transfer of funds among countries. Many U.S. investors are comparative isolationists in a global market where foreign traders, who have had longer experience, seem to be more skilled.

These changes and others—like the gradual movement of the U.S. to a service-oriented society—which may be less subject to traditional business cycles, have temporarily overloaded a number of investors' thinking circuits. There has been a significant flight to cash as the confused and the just plain cautious adjust to these new developments and restructure their investment approaches accordingly. All of this is taking place independently of what is going on in business, where corporate sales and profits continue strong for the most part.

While the stock market is waiting for the new models, there are still bargains on the lot. *SmithKline Beckman* (46) sold as high as 72 per share last year and 60 this year before dropping to its present price. SKB has been experiencing lower sales of Tagamet and Dyazide. As steps are being taken to improve the marketing of these two drugs, earnings per share could improve as a result of cost-cutting and new products. Estimates for earnings per share are for $4.20 in 1988, $4.75 to $5 in 1989. The company is valued at around $80 per share on a breakup or acquisition basis, which should provide price support for the stock.

If I were a cash-rich consumer products company, I would consider acquiring an outfit like *Rubbermaid* (22). The company has minimal debt, a healthy cash flow and a strong franchise in its brand name. In addition, the company's products are relatively recession-proof and insulated from foreign competition. RBD is expected to earn around $1.35 this year and $1.55 next year. Last year the stock sold as high as 35 per share. And nothing has changed but perceptions.

Lotus Development (18), *Seagate Technology* (9) and *Raychem* (39) are currently selling near their recent lows, as institutions jettison disappointing stocks prior to reporting third-quarter portfolio positions. If you are in a trading mood, these three dumpees could rebound 10% to 15% in a matter of weeks. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

There are bargains today in midwestern farmland and Texas commercial real estate. But it's too early to buy them.

NOT A CRUNCH, BUT A CRASH

By Ashby Bladen

After a quarter-century of increasingly reckless borrowing and spending we Americans are probably about to find that the party is over. It will not end with a crunch administered by the Fed, but with a crash caused by a collapse of world confidence in the creditworthiness of the American people. The domestic consequences will be severe.

This year the British have gone on a wild borrowing and spending spree like the one we have been on for six years, but their government, unlike ours, knows it. The same day the Bank of England raised its base rate to 12%, up from 7.5% in June, Chancellor of the Exchequer Nigel Lawson said, "We seem to have too much of a good thing." We Yanks consider too much of a good thing our birthright.

Long-term interest rates will rise fast from now on because, after a full quarter-century of government policies that encouraged excessive and inflationary borrowing and spending, nobody makes permanent investments in long-term bonds for [illegible] more. For years bonds [illegible] been bought as speculations on falling interest rates, and once people become convinced that the trend is the other way, they will drop bonds like hot potatoes. Interest rates will be pushed up not only by worsening inflation but also by the growing awareness that many of our debtors are not going to repay us. That will cause a growing fear that we, in turn, may not repay our foreign creditors in dollars of any great value.

The scenario is much like that of 1931, with the U.S. substituting for the U.K.—with one enormous difference. Because everybody remembers the last deflationary depression, this time the political imperative is to fend off another deflation by bailing everybody out at any cost. The next depression would have started in 1982 but for the fact that the creditor countries' governments made loans and pressured their banks to keep on making loans to debtor countries that couldn't pay what they owed already and were getting steadily deeper into the hole. This depression will start as an inflationary and high-interest-rate depression.

We now feel that 4% inflation, which panicked President Nixon into imposing price and wage controls, requires no action at all. It is only the threat of acceleration above 4% that bothers us these days. But even with inflation at 4%, a dollar would lose half its value in less than 18 years.

What part will the Fed play this time? Nowhere near as large a one as it did in the last four crunches, because after six years of providing much of the fuel for the greatest borrowing and spending spree in all history it has very little room left for maneuvering. The burden of debt service charges in the U.S. is now so great and so many debtors are already on the brink of trouble that the next crunch will rapidly turn into a depression. The Fed does not want to be responsible for that, so it will let our foreign creditors precipitate the crunch. But that also means the Fed will not be able to call the next crunch off when it begins to hurt, as it did the last four times.

What should investors do? I think we should wait a long time before looking for bargains. If this were 1966 or 1970 or 1975, I would be starting to look hard at midwestern farmland and Texas office buildings, because in those years, when we had suffered as much grief as we have already suffered this time, we could be pretty sure that the Fed was about to relax. Some of the institutional investors I was not able to talk out of buying those things in the early 1980s have now given up and that's a good sign. But this time the ball isn't in the Fed's court. It's in our foreign creditors' court.

Midwestern farmland and Texas commercial real estate are the kind of things foreign institutional investors should be buying for the long haul, now that dollar investments have become dirt-cheap in terms of deutsche marks and yen. But we Americans are so bound and determined to keep right on borrowing and spending that we will end by completely destroying our foreign creditors' confidence in our ability to repay our debts.

If you are a longtime FORBES reader, you will recall that I advised against becoming an aggressive investor in 1982. At the time I believed the Fed realized it would have to continue the interest rate crunch until it had killed inflation stone-dead and scared everybody back into lasting prudence with respect to borrowing and spending. I hope you ignored my advice, because it turned out that the Fed wasn't as tough as I thought it would be. But the Fed only put off the day of reckoning.

This time, as in the 1920s, the inflation caused by excessive borrowing and spending has shown up in asset values rather than in the cost of living. We created enormous capital gains by borrowing from foreigners as well as from the Fed, to leverage everything to the hilt. It has been a great party, but the hangover will be dreadful. ■

[illegible] is [illegible] consultant and [illegible] How [illegible] with the Develop[illegible] Cris[illegible]

f you follow an investing system, think wice, nay thrice, before deviating from it.

THE PERFECT AS ENEMY OF THE GOOD

By Mark Hulbert

s it possible for an investor to be oo clever and sophisticated, to outmart himself? The answer appears o be yes. Time and again, while nonitoring investment newsletter erformance in my *Hulbert Financial Digest,* I come across advisers who levelop very sensible trading systems and then second-guess them. More often than not, they regret it.

A notable example occurred in 1984-85 involving Richard Fabian's *Telephone Switch Newsletter,* which ses a mechanical 39-week moving verage system to generate switches nto and out of stock mutual funds. Fabian has always been quite eloquent on the need to stick to a rigid system and thus avoid the emotions of the moment—which makes all the more telling his experience when he violated his own rule.

In the first half of 1984, the market drifted gradually lower. It exploded upward during the first three days of August, and then resumed drifting sideways and gradually down. Sideways movement is very frustrating for those trading according to moving averages, because over time the moving average flattens and converges with the market, threatening whipsaws. Fabian's system, which generated a buy after the August spike and then a sell in December, suffered its first losing trade in some eight years.

This loss evidently led to some soul-searching, for immediately following his December sell signal Fabian changed his rules for reentering the market—requiring the market to rise not just through the 39-week moving average but by a greater amount, before generating a buy signal. Perversely, the market took off almost immediately, rising above the moving average and leaving Fabian's followers waiting on the sidelines. Fabian would have been better off sticking to his original ground rules.

The arguments Fabian advanced for changing his rules were very reasonable—but there also were good reasons not to change. Adjudicating between them must have been particularly difficult after his traumatic first loss in eight years.

A very similar pattern was played out more recently by *Prime Investment Alert,* edited by Robert Levesque. Following a loss generated by his mechanical trading system in early 1988, Levesque chose to violate his system and stay out of the market this summer. It cost him. As of the end of July, he would have been better off, per my calculations, to have stuck to his original system.

The perils of deviating from a mechanical system also were well illustrated by how some investors reacted to sell signals last October. Fabian's system, for example, generated a switch after the close on Thursday, Oct. 15, giving subscribers a one-day window of opportunity on Friday to get out before the following Monday's crash. But, judging by comments I have received at seminars I have given since then, at least some subscribers chose not to act on the signal. They saw the market selling off steeply on that Friday, Oct. 16, and doing so on record volume. Wouldn't it have been reasonable to expect at least a temporary bounce from this exaggerated selling, and thus to wait before acting on Fabian's sell signal?

Eminently reasonable—but undeniably costly. The market went down more than 500 points on Monday, Oct. 19.

Needless to say, not all deviations from mechanical systems are as disastrous as this last one. And some turn out to be profitable. But when investment professionals have this much difficulty in second-guessing their own mechanical trading systems, it should make us think twice when we are tempted to do so ourselves. The evidence seems to be that it is better not to do so.

This is a difficult lesson to absorb. We like to think of investing as an endeavor in which there is a positive return for more work. And to a large extent that's true. But what also seems to be true is that there is a point beyond which further analysis leads to no better investment results—and sometimes worse.

Why? I think that Fabian is right in what he preaches (as opposed to what he occasionally practices). To be successful, the investor must resist the emotional extremes to which the markets inevitably swing—and, ironically, a purely intellectual approach does a poor job of immunizing him from the pull of those emotions. Indeed, judging by the myriad contrasting opinions that I read in the 100-plus newsletters I monitor on a regular basis, at any given time there are always good reasons to be bullish or bearish on any investment. Exploring more and more "reasons" for a particular investment leads to paralysis, and in such a state one's emotions have free rein.

Mechanical trading systems, even those that are not perfect, at least do a good job of protecting the investor from those emotional extremes. Settling for an adequate, sensible strategy just might be wiser than searching for perfection. As the CIA's William Donovan said in another context, "The perfect can be the enemy of the good." ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest *and author of* The Second Hulbert Financial Digest Almanac, *published by Minerva Books.*

Nixon to Bush

(Continued from page 18)

where George and Mike propose we should be after four years of their leadership in the White House."

Nixon on Dukakis . . . : "Dukakis has emphasized competence and style rather than substance because his deeply held beliefs place him well to the left of the majority of voters. His reluctance to trumpet those beliefs is understandable. In 1964 Barry Goldwater demonstrated that he would rather be right than be president. In 1972 George McGovern demonstrated he would rather be left than be president. Dukakis will not make that mistake. He knows what it feels like to lose, and now he wants to win. If he can conceal his ultraliberalism until November, he will have plenty of time to implement it beginning in January."

. . . on Bush: "Bush can win only if he can finally show America who he is—not a *new* Bush but the *true* Bush. Dukakis will win if he continues to get away with obscuring who *he* is. If Dukakis's record is laid out next to Bush's, Bush stands an excellent chance of capturing the conservative Democrats who have played a decisive role in every election since 1968. If Bush fails to pin Dukakis down, he will lose the election. The owner of the 25-year-old snowblower from Brookline will have pulled off the biggest snow job since the Trojan horse.

"Polls show Dukakis leading decisively among the conservative 'Reagan Democrats.' This, not the gender gap, is Bush's biggest problem. Either these Democrats don't know Dukakis, or they have been conned into believing he is not liberal. In fact, the ideological differences between the candidates are greater than in any election since 1972.

"On the economic issues, Bush has flatly promised not to raise taxes, a position that many economists believe is irresponsible, but which remains a political plus. Dukakis has avoided Walter Mondale's error in 1984 of guaranteeing a tax increase. But his passion about balancing the federal budget and his record of balancing Massachusetts' on the backs of taxpayers show the direction President Dukakis would probably take. He has also come out for compulsory health insurance and rent control and against nuclear power plants. Bush disagrees with him on all these issues.

"The Dukakis positions on social issues could prove to be even more neuralgic for Reagan Democrats. He has favored freedom of choice for abortion, busing for racial balance, gun control and parole of convicted first-degree murderers. He is against the death penalty for drug dealers, against school prayer and against requiring teachers to pledge allegiance to the flag. Again, Bush disagrees with him on all these issues, and on most of them a majority of voters—Republicans plus Reagan Democrats—agree with Bush.

"[illegible] most vulnerable on foreign policy. He is the [illegible] candidate who embodies all the multilat[illegible] military impulses of post-Vietnam liberalism. Unlike Jimmy Carter, he is against the MX missile, whi is vitally needed to modernize our strategic forces. Unli Walter Mondale, he embraced the nuclear freeze in t early 1980s, which would have stopped deployment intermediate-range nuclear missiles in Western Euro and made the recent INF treaty impossible. His continu opposition to in-flight missile testing amounts to a facto freeze. He is against SDI, the Midgetman missile a the Navy's proposed new carrier groups. His so-call conventional defense initiative, a policy of developing t capacity to fight and win a bloody war in Europe, deep dismays our NATO allies.

"**Appearances:** To hold the Reagan Democrats, Dukak must appear to be someone other than who he is—moderate, even a conservative, but *never* a liberal. Bu must simply appear to be exactly what he is—conserv tive, strong and experienced.

"Bush should take this tack: we have been traveling the Reagan road, which has led to unprecedented prospe ty without inflation. Dukakis asks us to take a new ro Before going down the Dukakis road, we are entitled know how much the toll is and where it will take Conservative estimates are that Dukakis's domestic i tiatives would add $37 billion a year to the federal budg His contention that he can pay for these programs *a* balance the budget through more efficient tax collection voodoo economics, 1988 style.

"If President Dukakis scuttles SDI, the MX and t Midgetman, what incentive will Gorbachev have to duce his current first-strike advantage in land-based nuc ar weapons? Gorbachev is a very charming man, but he no philanthropist and no fool. He is not going to gi anything up unless he gets something in return.

"One hundred and fifty-three years ago, Tocquevil wrote perceptively of a unique characteristic of Americ democracy—'restlessness amidst prosperity.' But just b cause Americans are never satisfied with success does n mean they are to flirt seriously with failure. If Bush c convince them that their peace and prosperity will unsafe in Dukakis's hands and safe in his, they will pi him. The two factors of Bush's winning formula a change and continuity. They are not mutually exclusi Bush can and should promise continuity; Dukakis cann But if Bush permits Dukakis to be the only candidate w promises change, he will lose.

"As voters get to know Dukakis's liberal views, h negatives will rise. As they get to know the true Geor Bush, *his* negatives will decline. The American people a canny enough to listen to what a man is saying instead how he says it. The 1988 election is not about style a more than it is about competence or breeding. It is abo two starkly different visions of America and how it shou be led into the 21st century."

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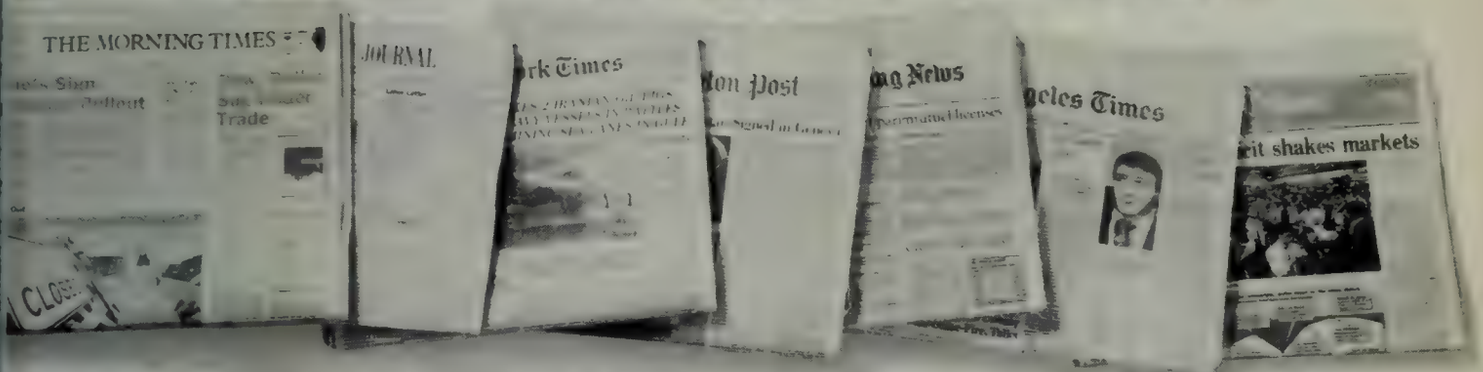

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Edited by Thomas Jaffe

A Mexican play

Drexel Burnham's Michael Milken is only one of the savvy investors who have been looking at opportunities in Mexico. Though its problems are many, Mexico has shown a surprising ability to cope with them. How does the smaller investor take a stake in this emerging economy? A handful of large Mexican companies have U.S.-traded ADRs—Teléfonos de México *(see next page)* and Tubos de Acero, for example. There is the New York Stock Exchange-listed Mexico Fund, which recently sold at a 30% discount to its net asset value. The venturesome investor, however, might want to look at an open-end investment fund trading on the Mexican stock exchange called Fondo Accivalmex, or Accival. As of June, Accival had around $130 million in assets and is roughly the same size as the Mexico Fund. But Accival has been a far better performer than its New York-listed competitor. Since the beginning of 1983 the total return of Accival is more than 1,800% (in U.S. dollars), compared with 42% for the Mexico Fund, making it the best-performing of Mexico's 36 mutual funds. Like the Mexico Fund, Accival typically invests in blue-chip Mexican stocks. But it trades as well as invests, according to Eugenia Pichardo, the managing director at Acciones y Valores, the brokerage house that runs Accival. That way it not only represents a long-term stake in the economy but a way to try profiting from the wild swings that are endemic to the Mexican market.

Last fall the Mexican market crashed and gave up most of the 700% gain it scored during 1986 and 1987, but Accival shares finished 1987 up 60% in U.S. dollar terms. Mexico Fund ended 1987 up 3%. The main difference was that Mexico Fund went into the market crash near fully invested, while Accival had 40% of assets in cash.

Accival's Pichardo believes that many stocks on the Mexican market are cheap despite a 28% runup in real terms so far in 1988. The average Mexican company is priced at four times cash flow and 77% of book value—adjusted for inflation.

You or your broker can buy shares in Accival by calling Acciones y Valores in Mexico City, asking for the International Department and opening an account. Commission: a little under 2%. Stock trades around $1.25 a share. Certificates can be held at either Acciones y Valores or Citibank, or at any other custodian in Mexico City.—**Matthew Schifrin**

No fish story

New York Stock Exchange-listed Zapata Corp. was founded in 1953 by George Bush and Pennzoil Chairman J. Hugh Liedtke, both of whom have long since sold their interests. But that's not what this item is about.

A Zapata Corp fishing vessel
Zapata's new cash machine.

A $600 million debt restructuring saved the offshore drilling concern from bankruptcy a year ago, but some of its debt issues still aren't paying interest.

However, Zapata Chairman R.C. Lassiter reduced overhead by 50% and wrote down over $200 million in oil and gas properties. The company lost $156 million in 1987 on $146 million in revenues, but cash flow remained positive to the tune of $10 million.

This year things are looking better. The company pocketed a quick $65 million profit through the cannily timed buying of two financial services companies from United Technologies and then reselling them. Moreover, Zapata's cash flow from operations will be at an annual rate of $43 million by year's end.

The company's Houston-based drilling business is improving, but Zapata's biggest gains are coming in commercial fishing. Zapata produces around 200,000 tons of fish meal a year; the fish are caught in the Gulf of Mexico and Chesapeake Bay by its 57-vessel fleet. This summer's drought has savaged the soybean crop and pushed up the price of fishmeal, which is used as poultry feed.

Bear, Stearns broker Roger Smith recommends two of Zapata's defaulted junior debentures. These 10%-plus coupon notes come due in 1997 and 2001. They trade at around 85 cents on the dollar and have accumulated two years' unpaid interest.

Come autumn, the notes are scheduled to start paying half of their coupon interest, and beginning next spring they will pay double their coupon rate for two years. According to Smith, that should provide 25% current annual yields during 1989 and 1990. After that the bonds will yield around 15% to maturity based on the recent price.—**M.S.**

Where's the buyer?

Over the last year or so the shares of Cincinnati-based Kroger Co. have been moving up on takeover rumors, and now trade at around 36 a share, up almost 60% from the October crash low. The old story: With $17.7 billion in sales, 1,300 supermarkets and 900 convenience stores, Kroger is said to be worth more broken up than whole. Rotan Mosle's Gary M. Giblen has a report out arguing that the stock is really worth over $50 a share. Giblen claims to have found, buried in the financials, $3.50 to $4.50 a share in undervalued real estate. Giblen believes a buyout will happen within the next six months—to beat the deadline of a new Administration in Washington.

All very convincing except for one thing: Who would buy it? Any buyer would need over $4 billion, and virtually all the big supermarket chains are already digesting major mergers. Kroger's management is not interested in

veraged buyout and would almost ainly attempt to repel any bids for company. That, plus the fact that ger is unionized, rules out many ign buyers, who typically avoid nized companies and hostile overs. At 15 times estimated 3 earnings, Kroger is already sell- at a premium to the market. If no er turns up by November, this k could take a hit.—M.S.

der-the-carpet value

ising demand for junk bonds has narrowed the spread against asurys and made bargain hunting ne junkyard tough. Tough, but not ossible. Take this relatively ob- e issue that has caught the eye of tec Securities bond analyst Han- Strasser: a $110 million, 11½% or subordinated debenture issued Synthetic Industries. Synthetic tes polypropylene carpet backing, ch is taking the place of tradition- ite underlays.

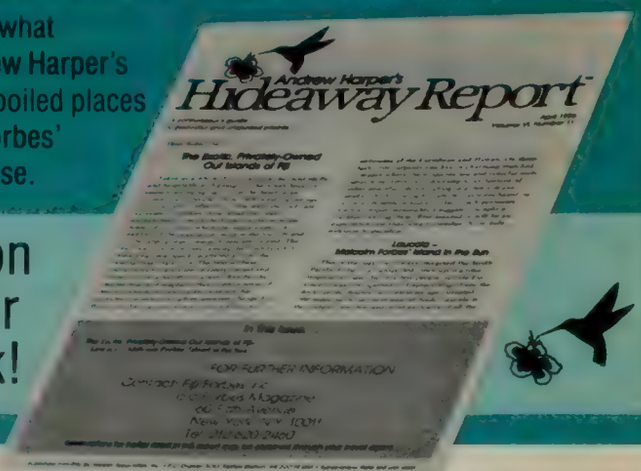
hickamauga, Ga.-based Synthetic ed the 1999 bonds through Merrill ch in 1987, and was forecasting sales growth in 1987. Yet, soon r the deal came out, polypropyl- prices shot up, Synthetic began to nder, and the bonds fell to around cents on the dollar.

ynthetic's banker, Bank of Boston, egotiated its own debt, helping the interest expense squeeze. nwhile, Synthetic has been able ass on more than expected of its eased polypropylene costs. Sales uld reach $140 million in 1988, cash flow now more than covers rest payments—something that sser thinks will continue at least ough 1992. At a recent price of 68 ts on the dollar, the bonds have a d to maturity of 18.5%.—M.S.

léfonos calling

hinking about individual Mexican stocks *(see lead item)*? Eugenia Pi- rdo recommends Teléfonos de xico. This phone monopoly should earnings grow over 30% a year over next two years. It realizes more n half its revenues in U.S. dollars ause it splits income from all ./Mexico calls. The ADRs are listed the American Stock Exchange, re- tly for about 25 cents a share. Telé- os sells at three times estimated 8 earnings and one-third of book ue. This year it paid about 10% of nings in dividends.—M.S.

"This is the way you always imagined the South Pacific to be" Read what Andrew Harper's exclusive guide to unspoiled places says about Malcolm Forbes' exotic Fiji Island paradise.



It's the vacation of a lifetime for $2,150 a week!

"Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of 'bula' are a reflection of the welcome and care extended to visitors.

"This is the way you always imagined the South Pacific to be – an unspoiled, once-upon-a-time tropical isle seen by very few people outside Fiji since it was first spotted by Captain Bligh from the decks of the *Bounty* two centuries ago. Situated 200 miles out to sea northeast of Nadi, Laucala is the lushest, remotest and most exclusive of all the destinations in this corner of the world. The island is ringed by impressive coral reefs, shell-strewn beaches and a beautifully manicured coconut plantation whose terrain rises upward to a mountainous interior rife with giant ferns, mango trees and wild birds. . . .

"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

Meals are a delight here, beginning with breakfast prepared by a cook and housekeeper in the privacy of your own bungalow at any hour you wish. Dinner and lively conversation are enjoyed at the atmospheric Plantation House . . .

"A wide range of daytime diversions are available including top-notch sport fishing aboard a specially-designed 45-foot deepsea boat staffed with a knowledgeable captain and crew at your call. Tuna, mai-mai, snapper, jack fish and sailfish are all regularly hooked in these virgin grounds, plus an occasional black marlin. There's also superb snorkeling/scuba diving (tanks and weights provided) in the transparent offshore waters where stunning reefs harbor colorful coral heads teeming with rare tropical fish and specimen shells. . . .

"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

Contact:
Fiji Manager
Attn: Errol Ryland
Fort Garland, CO 81133
(719) 379-3263

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88S3

Forbes Index

INDEX OF COMPANIES COVERED IN NEWS STORIES AND BY THE COLUMNISTS IN THIS ISSUE. EACH REFERENCE IS TO THE FIRST PAGE OF THE STORY IN WHICH THE COMPANY NAME APPEARS.

Acciones y Valores ... 218
Adams Express ... 80
Aetna Life & Casualty ... 36
AGB Research ... 168
American Banker ... 122
American Electric Power ... 117
Ameritech ... 174
Anheuser-Busch ... 76
Apollo Cablevision ... 174
Apple Computer ... 185
Arbitron Ratings ... 168, 174
Armco ... 204
Ashton-Tate ... 184
AT&T ... 41, 100, 102, 174, 179, 185
Avon Products ... 10
Bairnco ... 12
Baldwin-United ... 36
Banco de Bilbao ... 76
Bank of Boston ... 219
Barclays ... 80
Bateman Eichler, Hill Richards ... 204
Batterymarch Financial ... 100, 102
Bausch & Lomb ... 190
BBC Brown Boveri ... 128
Bear, Stearns ... 218
Bechtel ... 76, 128
Bellcore ... 174
BellSouth ... 174
Beneficial ... 179
Arnold Bernhard (Value Line) ... 204
Beta Capital ... 76
Bethlehem Steel ... 204, 210
Blue Chip Economic Indicators ... 84
BMI Capital ... 206
BMW ... 76
Boeing ... 102
Borden ... 95
Bowser Growth Fund ... 134
Brierley Investments ... 64
British Telecom ... 80, 174
Business Economics ... 84
Business Week ... 18
Campbell Soup ... 41
Canadian Javelin ... 222
Canon ... 10
Capital Cities/ABC ... 168
CBS ... 168
Champion Spark Plug ... 202
Chapman Energy ... 106
Charter ... 36
Chartwell Securities ... 10
Christie's International ... 188
Chronicle Books ... 19
Cincinnati Gas & Electric ... 117
Citicorp ... 12, 218
Claremont Fund ... 134
Closed-end Fund Digest ... 132
Club Mediterranée ... 56
CMS Energy ... 128
Coastal ... 128
Coca-Cola ... 22, 41
Combustion Engineering ... 128
Commerce Clearing House ... 104
Compaq Computer ... 179
Continental Illinois ... 12
Cooke CableVision ... 174
Dahlberg ... 14
Data General ... 8, 179
David's Cookies ... 22
Daylong Island Española ... 76
DDB Needham ... 174
Deltec Securities ... 219
Detroit News ... 34
DFC New Zealand ... 64
Diamond Shamrock ... 72
Digital Equipment ... 179, 184, 202
Walt Disney ... 56, 92
Dow Chemical ... 128, 207, 210
Dow Jones *(Wall Street Journal)* ... 41
DPL ... 117
Dragados Y Construcciones ... 76
Drexel Burnham Lambert ... 36, 218
Du Pont ... 80, 207
Ekta ... 36
Epitaxx ... 174
Equicor ... 36
Equitable Life Assurance Society ... 36
Essex ... 222
William Esty ... 168
European Pacific Investments ... 64
Fairfield Communities ... 72
Farrar Straus & Giroux ... 184
Fay, Richwhite ... 64
Fidelity funds ... 134
Financial Times ... 76, 80
First Boston ... 13, 100
First Capital Holdings ...
First Chicago ...
First Marathon Securities ...
First RepublicBank ... 14, 120, 122,
Florida Progress ...
Fluor ...
Fondo Accivalmex ...
Ford Motor ... 76, 84, 124,
GE ... 36,
GE (Kidder, Peabody) ...
GE (NBC) ... 168,
GE (RCA) ...
General Development ...
General Dynamics ...
General Motors ... 34, 102, 124, 202,
General Motors (Chevrolet; Pontiac; Oldsmobile) ...
Global Natural Resources ...
B.F. Goodrich ...
Graham-Paige ...
GTE ...
Guam Economic Development Authority ...
Gulf & Western (Paramount) ...
John Hanson Savings Bank ...
Harris Trust ...
H.J. Heinz ...
Heritage Media ...
Hitachi ...
Home Premiere Television ...
Honda ...
Hospital Corp of America ...
Hudson's Bay ...
Hulbert Financial Digest ...
Hupmobile ...
E.F. Hutton ...
Hydraulic (Bridgeport, Conn.) ...
Hydrola ...
IBM ... 8, 179, 184, 185,
Informix ...
Inland Steel ...
Integrity Life ...
Intel ...
International Credit Service ...
International Thomson Organisation ...
Investors Overseas Services ...
Japan Air Lines ...
Johnson & Johnson ...

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vard D. Jones ... 14
Γ ... 36
ıfmann Fund ... 134
inwort Benson ... 198
ger ... 218
:d. Krupp ... 52
. Gear ... 118
nson & Sessions ... 202
y Organization ... 92
nas & Nettleton Financial ... 122
ırho ... 52
us Development ... 202, 211
V ... 204
rks & Spencer ... 41
rriott ... 72
tsushita ... 76
tthews & Wright ... 209
xicare ... 14
CA ... 76
Donald's ... 192
Graw-Hill ... 36
Kesson ... 95
Corp ... 122
rrill Lynch ... 36, 198, 219
sa Limited Partnership ... 12
tropolitan Life ... 36
xico Fund ... 218
GM/UA Communications ... 174
crosoft ... 8, 179, 185
ller, Young & Holbrooke ... 174
tsubishi ... 174
tsui & Co España ... 76
ontgomery Securities ... 202
organ Stanley ... 198
otorola ... 179
ıtual of New York ... 36
ıtional Bank of New Zealand ... 64
CNB ... 120
estlé ... 41
ew America High Income Fund ... 132
ew Balance ... 118
ew England Life ... 36
w York Times ... 17
ew York Times ... 19
e New Yorker ... 14
wsday ... 18
wsweek ... 18
C. Nielsen ... 168, 174
ike ... 118
Nippon Telegraph & Telephone ... 179
Nissan ... 76
No-Load Fund Investor ... 134
Northern Telecom ... 174, 184
Nuveen Premium Income Municipal Fund ... 132
Oracle ... 184
Oxford Energy ... 128
PaineWebber Group ... 13
Pan Am ... 102
Panhandle Eastern ... 128
J.C. Penney ... 102
Pennsylvania Mutual Fund ... 134
Pennzoil ... 84, 218
Perritt Capital Growth Fund ... 134
Petrobrás ... 100
Phelps Dodge ... 210
Pillsbury ... 192
Polar Construction ... 76
Polar Sol ... 76
Prime Investment Alert ... 213
Prospect Group ... 106
Prudent Speculator Leveraged Fund ... 134
Prudential Insurance ... 36, 84
Quality of Earnings Report ... 138
Ragatz Associates ... 186
Raychem ... 174, 211
Reebok International ... 118
Charles Reeder Associates ... 84
Relational Technology ... 184
Republic Steel ... 204
Resort Condominiums International ... 186
Restaurant Associates Industries ... 92
Road and Track ... 34
Rochester Tax Managed Fund ... 134
Rotan Mosle ... 218
Rubbermaid ... 211
Saatchi & Saatchi ... 198
Salomon ... 201, 204
Sanyo ... 76
Saskatchewan Telecommunications ... 174
Seagate Technology ... 202, 211
Sears, Roebuck ... 92
Securitibank ... 64
Shearson Lehman Hutton ... 10, 198
Sheshunoff ... 104, 122
Siegel & Gale ... 198
Siemens ... 174
Singapore Airlines ... 102
SmithKline Beckman ... 211
Sony ... 76
Sotheby's Holdings ... 188
Southwestern Bell ... 174
Spink & Son ... 188
Star Cablevision ... 174
Sterling National Bank ... 84
Stragegic Planning Associates ... 36
Stride-Rite ... 118
Sun Microsystems ... 179, 185
Sunbelt Savings, FSB ... 120
Sybase ... 184
Synthetic Industries ... 219
Tandem Financial ... 36
Tele-Communications ... 13, 174
Telefonica ... 76
Teléfonos de México ... 218, 219
Telephone Switch Newsletter ... 213
Thomson Newspapers ... 104
Time Inc ... 174
Time Inc (HBO Video) ... 118
Times Mirror ... 104
Toronto Sun Publishing ... 104
Towle ... 118
Transurban ... 36
Tubos de Acero ... 218
Turtle Wax ... 95
Twentieth Century Fox ... 118
Twentieth Century Select ... 134
Union Carbide ... 95
United Technologies ... 218
US Healthcare ... 14
U.S. Shoe ... 202
USX ... 204
Van Kampen Merritt Municipal Income Trust ... 132
Varig ... 102
Vedder, Price, Kaufman & Kammholz ... 36
Viacom International ... 174
Volkswagen ... 76, 199
Wanderlust Travel ... 56
Western Federal ... 120
Whippet ... 222
Wickes ... 202
Wilshire Associates ... 206
Zapata ... 218
Zenith Income Fund ... 132

Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

Sixty years ago in FORBES

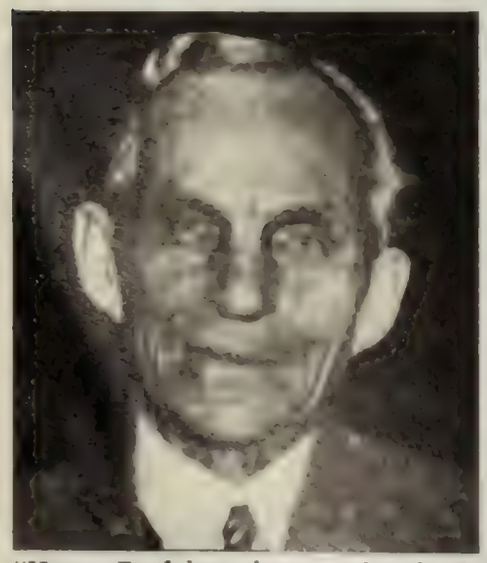
(From the issue of September 15, 1928)

"June passenger car registrations for the entire country show a total of 317,191. This figure compares with 263,868 for June 1927, a substantial gain of 53,323, reflecting the altered year conditions. . . . By far the bulk of the registrations, more than 94%, are of cars made in the Detroit district by 23 manufacturers. They accounted for 299,745 of the 317,191 total and for 52,229 of the 53,323 increase. Heavy sales in the month by Chevrolet, Whippet and Pontiac and substantial gains by Essex, Graham-Paige, Hupmobile and Oldsmobile account for the showing."

Fifty years ago

(From the issue of September 15, 1938)

"The New Deal's agricultural 'planning' has not panned out advantageously. The economic backbone of the South, cotton-growing, has suffered severely. Cotton-raising has been stimulated in other countries as never before. By artificially fixing high prices here, growers elsewhere have been presented with a greater and greater share of the world's markets. Today the U.S. supplies less than half the world's raw-cotton requirements, a very different proportion from formerly."



"Henry Ford has shown other business leaders three excellent examples: He habitually rises early and scrupulously avoids late hours; he eats sparingly (drinks nothing) and takes plenty of exercise; he has freely mixed hobbies with his keen attention to his job. I know no industrial giant of Ford's age, past 75, who could lick him in a foot race, none as supple, spry."

"The Newark Airport is an amazing institution. The aviation gateway between New England, New York and the nation, its volume of commercial traffic is probably twice that of any foreign airport in the world; that includes London's publicized Croydon and Berlin's ballyhooed Tempelhof. Last year Newark handled 299,350 passengers (27.1% of the U.S. total); 4,766,719 pounds of air mail (24.4% of the U.S. total); 2,488,508 pounds of air express (34.9% of the U.S. total)."

Twenty-five years ago

(From the issue of September 15, 1963)

"Any company whose stock passes the 100 mark on the New York Stock Exchange, and shows signs of staying there, can expect a tactful letter from the Big Board. It will suggest an informal discussion on the advisability of a stock split. For the Exchange is officially committed to a policy of keeping individual common stocks at what it considers desirable price levels. . . . What the Exchange regards as 'the most favorable price level' is in the 18-25 range."

"The pleasure-boat business, a scant five years ago the fastest thing in leisure-time spending, is today becalmed, waiting for the breeze of consumer spending to blow its way again. Since 1958 the aftertax income of Americans has soared from $318 billion to close to $400 billion. In the same five-year period, consumer spending on durable goods has risen from $37 billion to almost $50 billion. But none of this extra cash has found its way into boating. The pleasure boaters sold a record 329,000 boats in 1959. Last year the industry's sales were only 226,000 units. This year's total won't be much better."

"John Christopher Doyle, 48, propped his alligator loafers on the marble-topped table aboard Canadian Javelin Ltd.'s converted DC-6 airplane early this month, waved his big cigar at a FORBES reporter and said grandly: 'I haven't made up my mind, but I might process 100,000 tons of ore out

John Doyle of Canadian Javelin

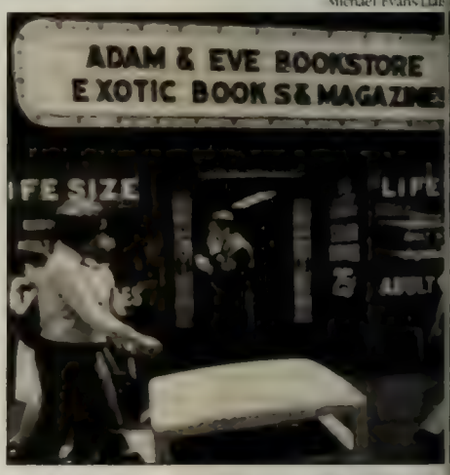
of Julian Lake this year and ship it the Japanese.' . . .

"Is John Doyle an unscrupulo promoter who, as charged in a U indictment, fraudulently helped drive up the price of Canadian Jave stock between 1955 and 1958? Or he a visionary—with an admitte checkered past—who sometimes f gets to play by the rules in his haste develop Javelin's 2.5 billion tons iron ore in the wilds of Labrador?"

Ten years ago

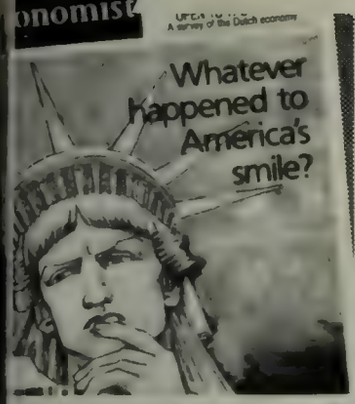
(From the issue of September 18, 1978)

Michael Evans/Lu



Porn shop near New York's Times Squa

"According to the California Depa ment of Justice, the nation's porn raphers do a good $4-billion-a-ye business, about as much as the co ventional motion picture and reco industries combined. That estima may be grossly conservative. 'Two three times that is more like it,' sa one West Coast police officer, a vet an of many antipornography drives



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The Economist

Top Thinking for Top People.

Thoughts
on the Business of Life

Great men undertake great things because they are great; fools, because they think them easy.
VAUVENARGUES

Every base occupation makes one sharp in its practice, and dull in every other.
PHILIP SIDNEY

A man can believe a considerable deal of rubbish, and yet go about his daily work in a rational and cheerful manner.
NORMAN DOUGLAS

Don't expect the public to stir themselves of their own accord out of regard for your personal excellence, or because the things you make are beautiful.
GIACOMO LEOPARDI

In cultivated periods men make it a kind of religion to admire what was admired in primitive times.
VOLTAIRE

If each of us were to confess his most secret desire, the one that inspires all his plans, all his actions, he would say: "I want to be praised."
E.M. CIORAN

Nothing is good for everyone, but only relatively to some people.
ANDRÉ GIDE

Pain, indolence, sterility, endless ennui have also their lesson for you, if you are great.
RALPH WALDO EMERSON

Most people sell their souls and live with a good conscience on the proceeds.
LOGAN PEARSALL SMITH

The sterility of catch-as-catch-can moneymaking, the barrenness of hoarded cash, its powerlessness to satisfy the soul—an awakening to this realization is working a mighty transformation among the men whom the world looks upon as little better than machines for coining dollars. A sense of brotherhood is developing in unexpected places. There is a tendency to consider the aim, the end of life, to ask what it all amounts to, and to lean a little more toward the things that count.
B.C. FORBES

In every age of well-marked transition there is the pattern of habitual dumb practice and emotion which is passing, and there is oncoming a new complex of habit.
ALFRED NORTH WHITEHEAD

Most men would rather be charged with malice than with making a blunder.
JOSH BILLINGS

Too many have dispensed with generosity to practice charity.
ALBERT CAMUS

To see the world means judging the judges.
JOSEPH JOUBERT

7 392

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Just as a cautious businessman avoids tying up all his capital in one concern, so, perhaps, worldly wisdom will advise us not to look for the whole of our satisfaction from a single aspiration.
SIGMUND FREUD

You never expected justice from a company, did you? They have neither a soul to lose, nor a body to kick.
SYDNEY SMITH

Amid the pressure of great events, a general principle gives no help.
G.W.F. HEGEL

Qualities that are too far above the average often render a man less fitted for society. One does not go to market with gold bars, but with silver coins and small change.
NICOLAS CHAMFORT

A Text . . .

A faithful man shall abound with blessings: but he that maketh haste to be rich shall not be innocent.
PROVERBS 28:20

Sent in by Charles Roland, Milwaukee Wis. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

"This dog is mine," said those poor children; "that is my place in the sun." Here is the beginning and the image of usurpation of all the earth.
BLAISE PASCAL

It used to be a good hotel, but that proves nothing—I used to be a good boy.
MARK TWAIN